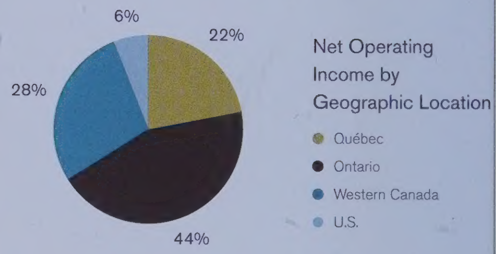
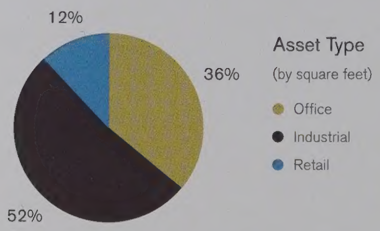
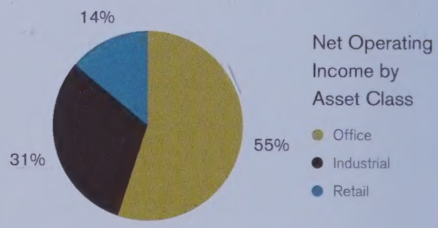
PRIME NUMBERS

Dundee REIT 2003 Annual Report

Dundee REIT is one of Canada's leading providers of high quality, affordable business premises. Our diversified portfolio of rental properties is concentrated mainly in Canada's key urban markets. Our goal is to provide unitholders with a stable and growing return on their investment through participating in cash distributions on a tax-deferred basis.







AT DUNDEE REIT WE ARE COMMITTED TO MANAGING A REAL ESTATE BUSINESS THAT PRODUCES SUSTAINABLE AND GROWING DISTRIBUTIONS FOR OUR UNITHOLDERS. WE MEASURE OUR SUCCESS BY THE STRENGTH OF OUR NUMBERS – BY THE *PRIME* NUMBERS THAT DEFINE OUR BUSINESS, REFLECT OUR STRATEGY, AND KEEP US PREPARED TO SEIZE NEW OPPORTUNITIES IN OUR CHOSEN MARKETS.

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FINANCIAL HIGHLIGHTS

($000's except per unit amounts)

For the six months ended December 31	2003
Financial position	
Rental properties assets	$ 915,050
Total assets	997,177
Debt	582,492
Unitholders' equity	385,955
Operating results	
Revenue	$ 78,162
Funds from operations	21,150
Net income	12,173
Funds from operations per unit	1.22
Net income per unit	0.71
Distributions	
Distributable income	$ 21,310
Distributable income per unit	1.23
Distribution payable to unitholder	1.10
Payout ratio of cash distributions	89%
Tax deferred portion of distribution	58%
Ratios and percentages	
Occupancy rate	92.7%
Debt to gross book value	56.2%
Percentage of floating rate debt	5.7%

Daily Closing Price

TSX: D.UN

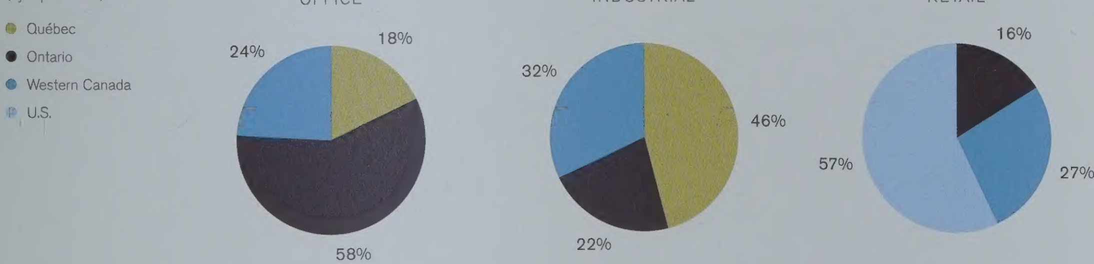
COMMERCIAL RENTAL PROPERTIES

(as at December 31, 2003)

		Owned Share of Total GLA	Number of Properties	Number of Buildings	Occupancy (%)
OFFICE	Greater Montréal Area	753,985	17	18	87.9
	Ottawa	911,518	9	9	98.6
	Greater Toronto Area	1,533,449	11	23	89.2
	Saskatoon	62,444	1	1	93.4
	Edmonton	172,826	1	1	100.0
	Calgary	559,072	3	3	96.9
	Surrey	214,105	1	1	85.5
	Total Office	**4,207,399**	**43**	**56**	**92.4**
INDUSTRIAL	Greater Montréal Area	2,818,212	47	48	89.5
	Greater Toronto Area	1,333,109	15	24	99.7
	Edmonton	838,799	8	12	96.8
	Calgary	1,086,658	26	26	91.9
	Total Industrial	**6,076,778**	**96**	**110**	**93.1**
RETAIL	Ontario	217,209	2	2	92.9
	Western Canada	377,677	2	2	90.7
	U.S.	795,390	1	1	93.3
	Total Retail	**1,390,276**	**5**	**5**	**92.5**
All Assets		**11,674,452**	**144**	**171**	**92.7**

Regional Distribution

(by square feet)



LETTER TO UNITHOLDERS

We are very pleased to present to you our first annual report. Dundee REIT was created in mid-2003 through the acquisition of the commercial rental property division of Dundee Realty Corporation, a then publicly listed company on the TSX. The conversion to an investment trust was proposed in order to create a more efficient investment vehicle, to increase the trading value of our business, and to provide our investors with consistent and growing distributions.

Since the end of 2002, the value of our enterprise on a per unit basis has increased from $15.45 to $25.40 on March 15, 2004. In addition, upon conversion, each of our investors received $3.00 per share and since then have received an additional $1.46 per unit in distributions. The increase in our unit price together with the cash paid out represent an overall return of about 90%. When the REIT was created in June 2003 we owned approximately 11.1 million square feet of primarily office and industrial properties in Montréal, Ottawa, Toronto, Calgary and Edmonton. Diversification between two core asset classes in five markets provides us with a stable base that is not subject to the volatility of any single market or asset class.

LEFT TO RIGHT

Jeff Barnes Executive Vice-President and Chief Financial Officer, **Michael Cooper** President and Chief Executive Officer, **Jane Gavan** Executive Vice-President and General Counsel, **Michael Knowlton** Executive Vice-President and Chief Operating Officer

Towards the end of 2003 and the beginning of 2004, we identified and capitalized on opportunities to grow our business in our core markets – acquiring $260 million of office and industrial properties in Ottawa, Calgary and Toronto. These acquisitions were financed with long-term debt at historically low interest rates. The equity component of the acquisitions was financed through two equity issues totalling $166 million. As a result, we have built an excellent portfolio of high quality properties in the best Canadian markets, and secured a roster of creditworthy tenants with long-term leases. Our goal is to continue building upon this solid platform and to reinforce the confidence that our unitholders have in our ability to make monthly distributions. As we grow and benefit from the additions to our portfolio, increases in portfolio rent and occupancy rates, and from lower interest rates as we renew our existing debt we hope to increase those distributions for our unitholders.

This is a new era for the real estate industry. Over the past decade, we have witnessed a period of low interest rates, little new construction and relatively weak demand for office space. Notwithstanding the weak demand for space, overall occupancy rates during this period have been at or above historic levels. Property owners have generated 8-10% returns on their assets and, with the use of conservative levels of debt, have been able to achieve equity returns between 12 and 18%. Based on comparative investments, real property has attracted substantial capital investment because of the perceived return on investment and the low risk level. With the large amount of capital chasing high quality properties, prices have been increasing. However, price increases have not just been driven by the consistent performance of real property, but also by declining interest rates that have allowed purchasers to achieve their investment return requirements even as prices rise.

In this new era, capital is not a scarce resource; quality properties at reasonable prices are. Dundee REIT has been able to grow its business based in part upon our relationships with partners and vendors. We completed the Telus Tower acquisition, a 705,000 square foot office building in downtown Calgary, with a strategic partner. We acquired the Palladium Office Campus, 229,000 square feet of office space in Ottawa, based on a long-term relationship with the mezzanine lender. And in our most significant transaction to date, we completed the acquisition of a 1.6 million square foot portfolio of office and flex industrial buildings in Calgary and Toronto from The Pauls Corporation. This portfolio of new properties was highly sought after. Dundee REIT was ultimately the successful bidder as a result of our experience with the developer, as well as our ability to create a structure that allowed the vendor to receive a reasonable price for their completed assets, to secure mezzanine financing to develop additional assets, and secure a buyer for the new properties once their development is complete. At the end of the day, we acquired some of the best flex industrial space in Canada and established a pipeline that will lead to the acquisition of a total of 2 million square feet.

In 2003, the overall dollar value of properties sold in Canada decreased over the previous year with most properties now being owned by long-term investors. We anticipate sales will decline further in 2004. However, we are confident in our ability to selectively grow our portfolio by working with real estate brokers and vendors to identify and acquire assets that will contribute to the overall quality and consistency of our portfolio – and thus contribute to the dependability of our unitholder distributions.

Dundee REIT has a relatively low level of debt. In 2004, we have the opportunity to renew maturing debts and place new debt on acquired assets, at fixed rates, in a record low interest rate environment – this being nearly 35% of current debt. In addition, we have existing debt capacity to take advantage of new acquisition opportunities to further improve our business.

In 2004, we will continue our efforts in meeting the needs of our tenants and to being their landlord of choice. We will remain focused on our occupancy levels – encouraging tenants to stay with us as their leases expire as well as attracting new tenants to our affordable buildings.

By all measures, 2003 was a very successful year. The value of our business improved significantly, we increased the size of our portfolio with the addition of excellent new properties, and we successfully completed a restructuring into a very competitive real estate enterprise. Dundee REIT is among the larger real estate investment trusts in Canada and has experienced substantial increases in its trading volume and liquidity. We currently own approximately 13.2 million square feet of properties with an historic cost of about $1.2 billion and we have a market capitalization of about $600 million.

We would not have been able to achieve the accomplishments of the past year without the support of our unitholders, trustees and colleagues. To you we extend our immense thanks and promise to continue working to maintain your confidence and trust.

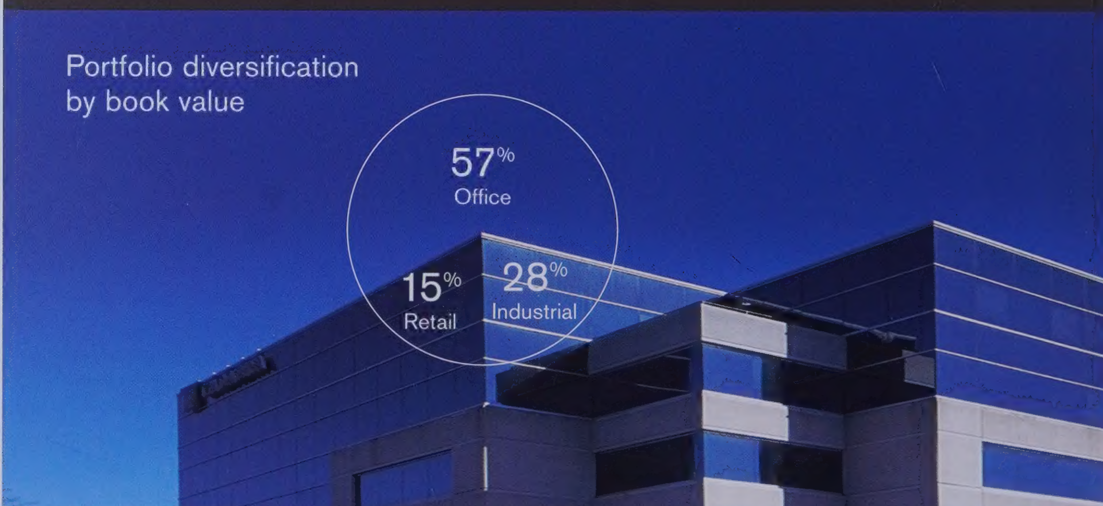
We are very excited about the prospects for 2004. Tenants are renewing their leases, we are making progress with new leasing, and we have a pipeline of attractive properties for future acquisition. We are also pleased with our progress in attracting new investors. In 2004, we will concentrate our efforts on gaining a larger following that, coupled with our consistent financial performance, will position Dundee REIT to become one of the top choices for income trust investors.

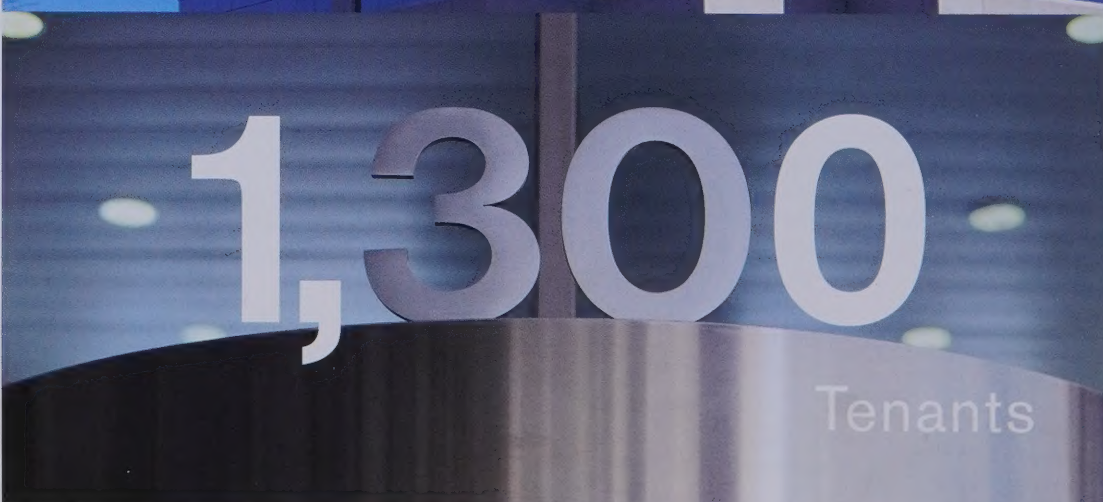
Michael J. Cooper
President and
Chief Executive Officer

CONSISTENT LONG-TERM RETURNS

A secure and steady cash flow. It's the ultimate goal of an investment trust. And in the case of Dundee REIT, it's the result of building a diversified portfolio, maintaining it effectively, and attracting and retaining a broad base of tenants.

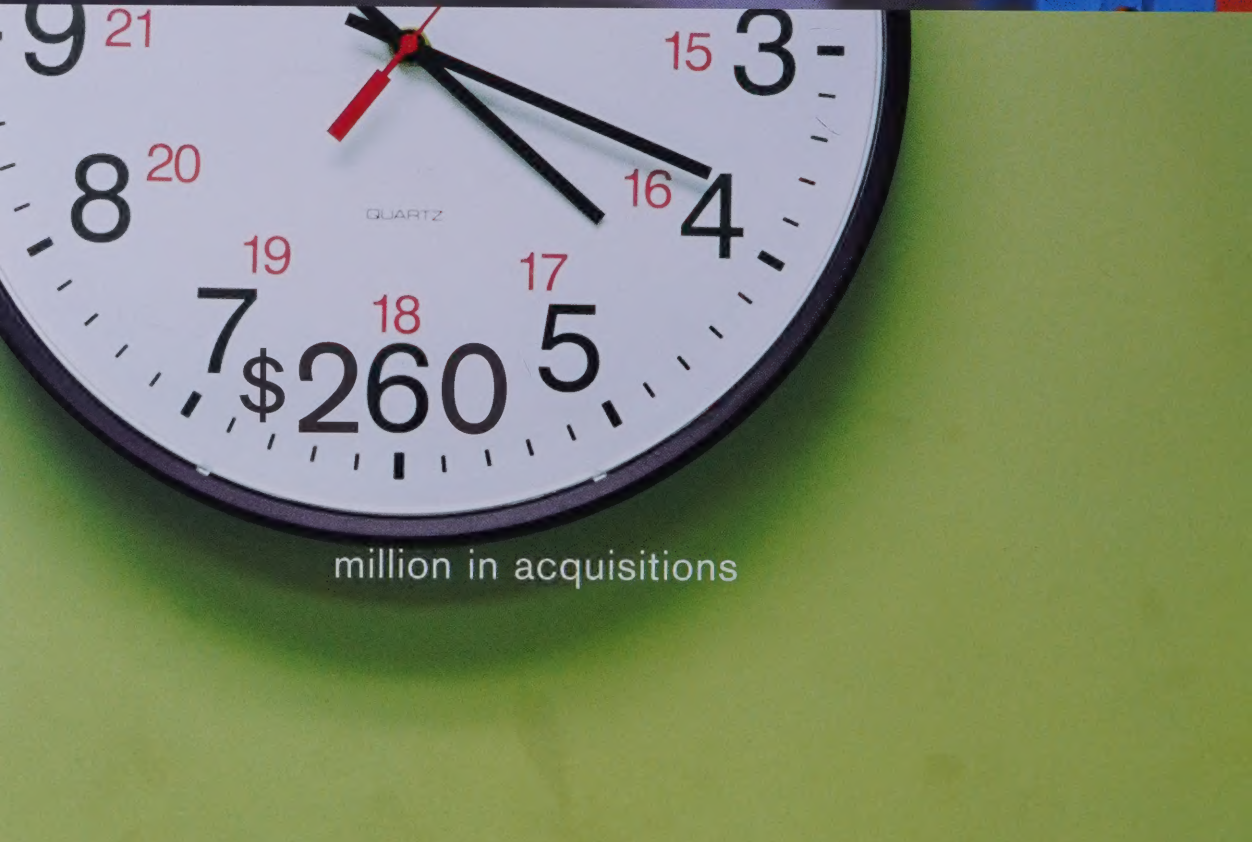
Our diversified portfolio – balanced by asset type, geographic location and tenant mix – reduces our exposure to individual markets and risks. Yet our success is the result of more than simply buying and holding properties. Ongoing asset reviews enable us to preserve and increase the value of our properties. Identifying the strengths within our portfolio allows us to determine which properties are being utilized to their full potential and where incremental improvements can be made. Innovative upgrades such as the two-storey advertising at 151 Bloor Street, the first of its kind in Toronto, enable us to enhance cash flow within our existing portfolio. All key factors in our ability to continue delivering long-term returns.






$21.1 million
Funds from operations
$21.3 million
Distributable income


July 2, 2003
December 31, 2003
$20.65
$23.40
Increase in unit price


$260
million in acquisitions

STRENGTH IN MANAGEMENT

Dundee is a new REIT, but it is not a new enterprise. Dundee REIT is managed by the same team that was responsible for the success of Dundee Realty as a public real estate company. The same team that substantially increased the value of Dundee Realty through an innovative management approach and astute deployment of capital. The same team that has, with the successful conversion to a REIT structure, unlocked significant value for our investors.

Since we began trading on the TSX on July 2, 2003, our value has continued to grow, reflected in the more than 20% increase in our unit price to date. Within eight months we raised $166 million in new equity and completed over $260 million in acquisitions. The new equity increases our liquidity in the stock market and the new properties improve the overall quality of our portfolio. The result today is a better business with better assets and more secure distributions.

A CONSERVATIVE BALANCE SHEET

While our structure has changed, our disciplined use of investors' capital remains unwavering. This conservative approach contributes to the predictability of our cash flow and the quality of our distributions. This steady discipline enhances our ability to continue growing our portfolio.

Many factors play a role in our conservative balance sheet. Our staggered debt maturities, for example, limit renewal risk in any given year and spread out our financing costs. Our staggered lease maturities, similarly, limit our renewal risk, spread out costs associated with leasing activity and increase the stability of our cash flow. We have seized the opportunity to lock in a significant portion of our debt at lower rates than we ever have before, but we have also resisted the temptation to increase our level of debt. Our disciplined approach and conservative balance sheet positions us well to continue growing our business and delivering for investors.

4.3 Years

Weighted average term to maturity of debt

6.93%

Weighted average interest rate

Price at which new units were issued subsequent to year end

$24.25

POSITIONED FOR GROWTH

We have a plan, we have the people, we have a healthy balance sheet. In many respects, we are well prepared to seize opportunities for further growth.

On a day-to-day basis our goal is straightforward: anticipate and meet the needs of our tenants. It's a simple objective, but it's how we ensure that our tenants will want to stay in our buildings and renew their leases with us. As a result, in 2003 amidst nationally declining occupancy rates, our year-end occupancy remained solid at 93%.

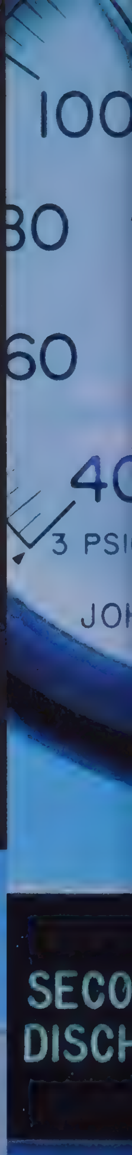
Our internal growth is also driven by effective asset management – by looking ahead to see how our properties can achieve optimal performance, or in some cases, weeding out those assets that under-perform in terms of quality or ability to generate consistent cash flow.

And finally, through accretive acquisitions, we are able to build upon our existing management strength and enhance operational efficiencies – improving the average age of our portfolio, lengthening our average lease term, increasing our average rent, broadening our tenant base.

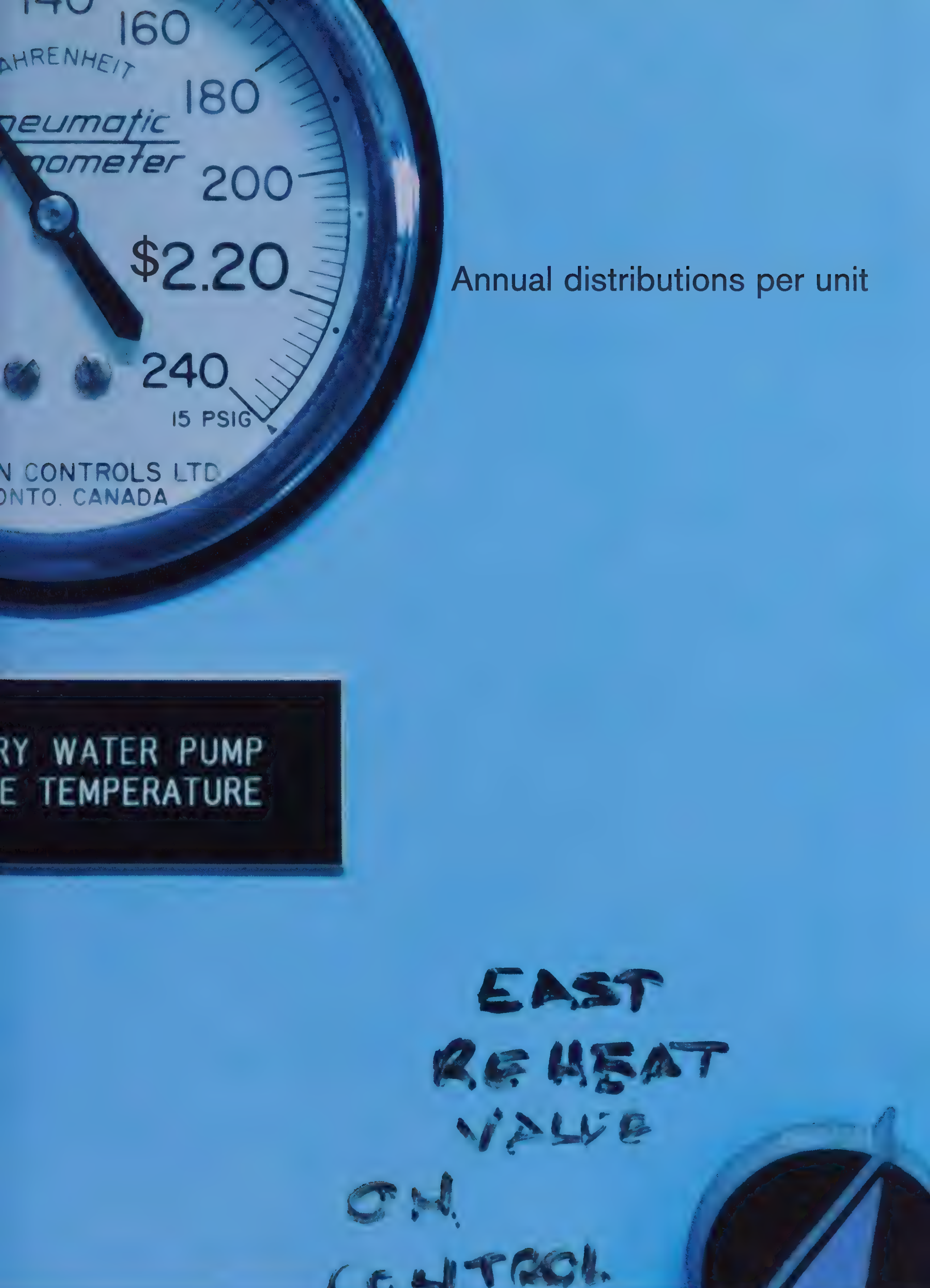
STEADY DISTRIBUTION FLOW

It boils down to this: steady income yields steady outflow. Since our formation in 2003, Dundee REIT has paid monthly distributions of 18.3¢ per unit, an achievement largely due to our predictable monthly rental income and steady cash flow.

More than 16% of our public unitholders have also chosen to reinvest in us through our distribution reinvestment plan. It's one of the highest participation rates in the REIT industry. And it's a clear signal of investors' confidence in the future of our enterprise and the sustainability of our distributions.



Performance indicators
(in millions) (6 months)



Annual distributions per unit

Toronto – State Street Financial Centre
30 Adelaide Street East

Mississauga 2400-2430 Meadowpine Boulevard

Edmonton – Epcor Centre
10065 Jasper Avenue

Toronto
151 Bloor Street West

Calgary 411 1st Street SE

Ottawa 700 Palladium Drive

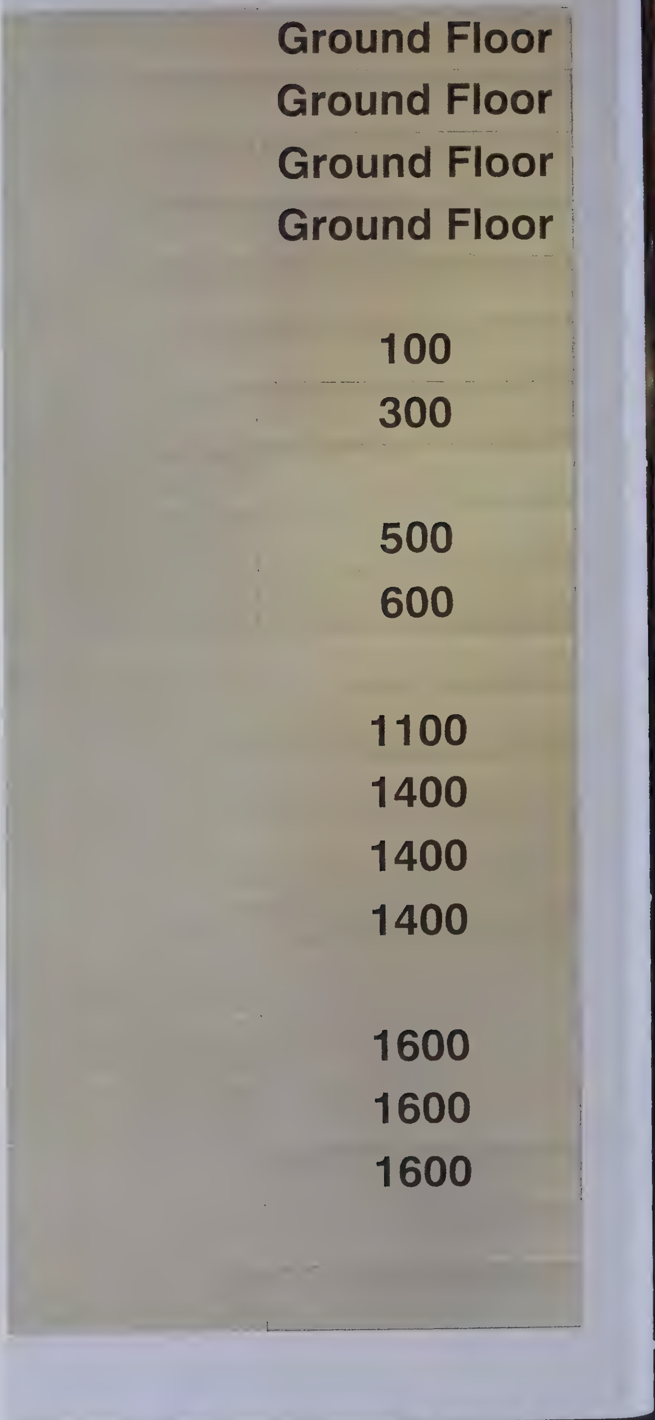

Calgary 3250 Sunridge Way NE


Ottawa 25 Fitzgerald Road


Mississauga 1020 Lorimar Drive
1020


KENSINGTON HOUSE
1167


Brampton 400 Chrysler Drive



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This Management's Discussion and Analysis contains or incorporates comments that constitute forward-looking statements. Reliance should not be placed on forward-looking statements because they involve risks and uncertainties, which may cause actual performance and results to differ materially from the performance implied in such forward-looking statements. Dundee REIT has identified certain factors, which may cause the actual results to be materially different from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to, general and local economic and business conditions, the financial condition of tenants; our ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; and interest and currency rate functions. These forward-looking statements are made as of March 15, 2004 and Dundee REIT assumes no obligation to update or revise them to reflect new events or circumstances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis has been dated as at March 15, 2004

Dundee Real Estate Investment Trust ("Dundee REIT" or the "Trust") is an unincorporated, open-ended real estate investment trust engaged in the ownership and management of commercial rental properties. We provide high quality affordable business premises through 144 strategically located office, suburban industrial and retail properties comprising approximately 11.7 million square feet as at December 31, 2003. These properties are located in our target markets, the major Canadian metropolitan centres of Montréal, Ottawa, Toronto, Calgary and Edmonton. Through our 50% interest in Dundee Realty Management Corp., we have approximately 13.8 million square feet of revenue properties under management, including 11.2 million square feet of owned assets.

Our Objectives

We are committed to:

- Providing predictable and sustainable cash distributions to unitholders;
- Prudently increasing distributions as the performance of our underlying business warrants; and
- Improving the overall value of our enterprise both through effective management of our business and through acquisitions.

Distributions

We currently pay monthly distributions to unitholders of $0.183 per unit or $2.20 on an annual basis. In August 2003, we introduced our Distribution Reinvestment and Unit Purchase Plan ("DRIP"). Unitholders who take advantage of the distribution reinvestment feature of the plan receive a bonus distribution of 4% with each reinvestment. At December 31, 2003, approximately 16% of REIT Units, Series A outstanding were enrolled in the DRIP.

2003	July	August	September	October	November	December
Cash Distribution	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183	$ 0.183
Month End Closing Price	$ 20.90	$ 21.88	$ 20.51	$ 22.00	$ 23.20	$ 23.40

Our Strategy

Our strategy is to become Canada's leading provider of affordable business premises. In order to meet our strategy and objectives we will:

- Effectively Manage Our Business

  We work to increase the value of our portfolio through continuous and active analysis of how our properties can achieve optimal performance. We identify strengths and weaknesses of individual properties and our portfolio as a whole, which allows us to quickly re-position assets when warranted. Through ongoing incremental improvements throughout our portfolio, we minimize the requirement for large capital expenditures.

  We stagger our debt maturities in order to mitigate interest rate exposure and to ensure that there are no significant maturities in any given year. Lease maturities are similarly staggered to maintain continuity of income and to avoid significant lease turnovers and their associated leasing costs in any given year.

- Build and Maintain a Diversified Portfolio

  Diversifying our real estate portfolio decreases the overall risk of our business. Our portfolio is well diversified by asset type, geographic location and tenant mix. With over 1,300 tenants, renewals are frequent and the exposure to the loss of any single large tenant is minimized.

- Meet the Needs of Our Tenants

  A strong relationship with our tenants is critical to our success. We strive to make Dundee REIT the preferred landlord by meeting and anticipating our tenants' needs. We believe that providing a consistent, high level of service puts us into a better position to re-lease space to existing tenants and helps to attract new tenants to lease vacant space quickly and cost effectively.

- Continue External Growth Strategy

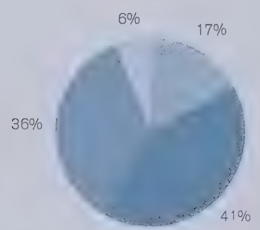
  We will not sacrifice the predictability of our distributions for the sake of growth. When acquisitions are made they represent an opportunity to improve the overall quality of our portfolio and enhance the sustainability of distributions. Our growth strategy is to acquire office and industrial properties in our five key markets – Montréal, Ottawa, Toronto, Calgary and Edmonton – and reposition existing properties where opportunities exist. This allows us to capitalize on operational efficiencies and further increase our presence and critical mass in our target markets.

Our Assets

We provide high quality, affordable business premises with a focus on mid-sized urban and suburban office and industrial properties. The majority of our assets are concentrated in our target markets: Montréal, Ottawa, Toronto, Calgary and Edmonton.

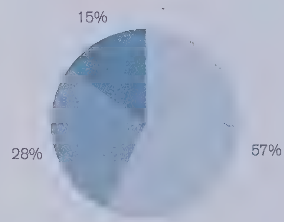
The book value of segmented rental properties is diversified geographically and by asset type.

	as at December 31, 2003					as at December 31, 2002	
($000's)	Office	Industrial	Retail	Total	%	Total	%
Québec	$ 50,402	$ 102,629	$ 1,711	$ 154,742	17	$ 155,576	19
Ontario	306,263	53,981	13,915	374,159	41	335,803	41
Western Canada	168,695	95,911	64,121	328,727	36	260,932	32
Total Canada	525,360	252,521	79,747	857,628	94	752,311	92
United States	–	–	57,422	57,422	6	70,104	8
Total at December 31, 2003	$ 525,360	$ 252,521	$ 137,169	$ 915,050	100	$ 822,415	100
Percentage	57%	28%	15%	100%			
Total at December 31, 2002	$ 417,829	$ 254,504	$ 150,082	$ 822,415			
Percentage	51%	31%	18%	100%			



Geographic Distribution of Rental Properties by Book Value at December 31, 2003

- Québec
- Ontario
- Western Canada
- United States



Portfolio Asset Type by Book Value at December 31, 2003

- Office
- Industrial
- Retail

	Owned Gross Leasable Area (in square feet)						
	as at December 31, 2003					as at December 31, 2002	
	Office	Industrial	Retail	Total	%	Total	%
Québec	753,985	2,818,212	–	3,572,197	31	3,574,014	32
Ontario	2,444,967	1,333,109	217,209	3,995,285	34	3,761,513	34
Western Canada	1,008,447	1,925,457	377,677	3,311,581	28	2,947,761	27
Total Canada	4,207,399	6,076,778	594,886	10,879,063	93	10,283,288	93
United States	–	–	795,390	795,390	7	796,187	7
Total at December 31, 2003	4,207,399	6,076,778	1,390,276	11,674,453	100	11,079,475	100
Percentage	36%	52%	12%	100%			
Total at December 31, 2002	3,615,270	6,077,433	1,386,772	11,079,475			
Percentage	33%	55%	12%	100%			

Office Rental Properties

Dundee REIT owns 43 office properties (56 buildings) comprising approximately 4.2 million square feet located in Montréal, Ottawa, Toronto, Calgary, Edmonton and Vancouver.

Vacancy rates in the national office market have continued to increase in 2003, although to a lesser degree than in 2002. With the exception of Ottawa, metropolitan centres across Canada have been struggling with higher vacancies and sublet space. Fortunately, there was hardly any new office construction in 2003 and demand for office space should improve in 2004. The occupancy rate in our office portfolio has remained relatively high at 92.4%, well ahead of the national industry average of about 88.4% (Royal LePage Commercial Inc. National Market Intelligence Report Fourth Quarter 2003).

Our team of experienced leasing and property management specialists works to ensure that our buildings are well leased, and that we maintain good relationships in the brokerage and tenant communities to meet and exceed the needs of our clients.

Industrial Rental Properties

We own 96 prime suburban industrial and flex space properties (110 buildings) comprising approximately 6.1 million square feet, concentrated in Montréal, Toronto, Calgary and Edmonton. Flex space properties are industrial properties with an office component that is greater than the 10-15% that is normally used in industrial properties. Some of the advantages of flex space are flexible

work environments, ample parking and significantly lower costs to tenants. Our strategy of owning clusters of properties allows us to respond quickly and efficiently to tenants' needs during times of change in their operations or size of their workforce.

At December 31, 2003, the average occupancy rate across our stabilized industrial portfolio was 93.1%, below the national industry average of about 95.5% (Royal LePage Commercial Inc. National Market Intelligence Report Fourth Quarter 2003). Canada's industrial market has performed very well with occupancy rates above 93% for the last several years. There is sufficient demand to justify new construction in 2004.

With the acquisition of the Pauls Portfolio subsequent to year end, we have added state-of-the-art facilities to our industrial portfolio. The majority of these properties are flex space properties located in high end business parks in Toronto and Calgary.

Retail Rental Properties

Our major retail assets are Northgate Mall in Regina and Greenbriar Mall in Atlanta. These assets comprise 1.1 million square feet of our total retail portfolio of approximately 1.4 million square feet. As of December 31, 2003, the portfolio had an occupancy rate of 92.5%.

Our Background

Dundee REIT was formed in connection with the reorganization (the "Reorganization") of the business of Dundee Realty Corporation ("Dundee Realty" or "DRC") on June 30, 2003. Following the Reorganization the majority of Dundee Realty's commercial real estate division, senior management, and a joint interest in its property management business, were transferred to Dundee REIT.

The Reorganization was the culmination of a process initiated by management of Dundee Realty to explore potential transactions that would create value for Dundee Realty's shareholders. Management of Dundee Realty believed that our new structure would result in more favourable equity valuations as compared to the common shares of Dundee Realty. It would also provide enhanced access to the capital required to grow the business.

Our discussion and analysis of the financial position and results of operations of Dundee REIT is based primarily on the consolidated financial statements of Dundee REIT for the six months ended December 31, 2003 and the combined financial statements of the commercial real estate division of DRC ("the Division") for the six months ended June 30, 2003 and for the year ended December 31, 2002. This discussion should be read in conjunction with these financial statements. Additional information relating to the Trust, including our annual information form, can be found on SEDAR at www.sedar.com.

The Division is not a legal entity and is used only as a method of presenting historical financial information. The combined financial statements of the Division are not necessarily indicative of the results that would have been attained had the Division been operated as a separate legal entity during the periods presented. Therefore, these results are not necessarily indicative of future operating results. No adjustments have been made to the Divisional financial statements to reflect possible incremental changes to the cost structure as a result of the Reorganization.

All dollar amounts in our tables are presented in thousands with the exception of unit and per unit amounts.

Pro Forma Information

The transfer of the assets and liabilities from the Division to Dundee REIT on June 30, 2003 has been measured under the continuity of interests accounting method at DRC's historical carrying amounts. As a result, the financial position, results of operations and cash flows of the Division have been presented as comparative information for Dundee REIT.

As the results of the Division do not reflect changes to the organizational or cost structure, comparability to the actual results of Dundee REIT are limited.

The following table combines the funds from operations ("FFO") of Dundee REIT for the six months ended December 31, 2003 and the Division for the period January 1, 2003 to June 30, 2003, subject to certain pro forma adjustments. The pro forma FFO presents the results of the Division as if the Reorganization had occurred on January 1, 2003. This provides an indication of the annual results for 2003 as if the Reorganization had occurred at the start of the year.

($000's except per unit amounts)	Dundee REIT Consolidated July 1 to December 31, 2003 (Actual) (1)	Division of DRC Combined January 1 to June 30, 2003 (Pro Forma) (2)	Year Ended December 31, 2003 (Annual Pro Forma)
Funds from operations	$ 21,150	$ 20,269	$ 41,419
Funds from operations per unit	$ 1.22	$ 1.25	$ 2.47
Weighted average number of units outstanding	17,267,237	16,279,437	16,776,143

(1) The reconciliation of FFO to net income can be found on page 26.
(2) As disclosed on page 21 in the Dundee REIT prospectus dated October 29, 2003.

Prime Numbers We Watch

Key Performance Drivers

While many factors contribute to the operation of our business, our key performance drivers include:

- Occupancy Level:
  - Tenant retention
  - Attracting new tenants
  - Tenant maturity profile and average term to maturity
- Rental Rates:
  - In-place rental rates
  - Increasing rental rates as conditions permit
  - Reducing operating costs
- Debt Management:
  - Average interest rate
  - Level of debt
  - Debt maturity profile and average term to maturity
- Capital Management:
  - Tenant inducement costs
  - Building maintenance
  - Investment in rental properties

Performance Indicators

Performance as measured by these and other key indicators:

	2003			2002
($000's except rental rates and per unit amounts)	Dundee REIT Consolidated July 1 to December 31	Division of DRC Combined January 1 to June 30	Year Ended December 31 (Total)	Division of DRC Combined Year Ended December 31
Operating results				
Revenues	$ 78,162	$ 74,540	$ 152,702	$ 146,682
Net operating income (1) ("NOI")	40,786	36,047	76,833	73,074
Net income	12,173	4,113	16,286	12,883
Funds from operations (2)	21,150	13,124	34,274	29,971
Distributions				
Distributable income (3)	21,310			
Distribution payout ratio (4)	89%			
Reinvested distributions (5)	9,257			
Reinvestment to distribution ratio (4)(5)	49%			
Per unit amounts				
Distributable income	1.23			
Distribution rate (monthly)	0.183			
Net income	0.71			
Funds from operations	1.22			
Occupancy rate (period end)	92.7%	93.5%		93.1%
In-place rent per square foot	8.43	7.88		7.89
Book value of rental properties	915,050	811,339		822,415
Total assets	997,177	863,204		869,211
Debt	582,492	505,592		504,159
Weighted average interest rate (period end)	6.93%	7.19%		7.24%
Interest expense	18,858	18,275		35,602
Interest coverage ratio (6)	2.09 times	1.83 times		1.93 times
Debt-to-gross book value	56.2%	56.3%		56.0%
Units outstanding at December 31				
REIT Units, Series A	12,094,217			
LP Class B Units, Series 1	7,211,431			
Total units outstanding at December 31	19,305,648			

(1) NOI – revenues less operating expenses. The reconciliation of NOI to net income can be found on page 27.

(2) FFO – net income, adjusted for future income tax, depreciation and amortization, and gain (loss) on sale and provision for diminution in value of assets. The reconciliation of FFO to net income can be found on page 26.

(3) The reconciliation of distributable income to net income can be found on page 26.

(4) These percentages do not include the additional 4% distribution available under the DRIP.

(5) Includes January 15, 2004 reinvestment of distributions declared in December 2003.

(6) Interest coverage is calculated using interest expense as the denominator and the numerator is calculated as net income adding back all income taxes, loss on disposal of land, depreciation, amortization and interest expense.

NOI and FFO are key measures of performance used by real estate operating companies; however, they are not defined by generally accepted accounting principles ("GAAP"), do not have standard meanings and may not be comparable with other industries or income trusts.

Executing the Strategy

Our Resources and Financial Condition

Liquidity and Capital Resources

Cash and short-term deposits were $4.0 million at December 31, 2003, an increase of $2.4 million from June 30, 2003. The increase was a result of the following cash flows:

($000's)	Dundee REIT Consolidated July 1 to December 31, 2003
Cash generated from operating activities	$ 20,245
Cash utilized in investing activities	(59,361)
Cash generated from financing activities	41,510
Increase in cash and cash equivalents	$ 2,394

In broad terms, Dundee REIT's primary sources of capital are operating activities, credit facilities, mortgage financing and refinancing, equity issues and proceeds of asset dispositions. The primary uses of capital are the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements, debt principal repayments and property acquisitions.

Management expects to be able to meet all of Dundee REIT's ongoing obligations and growth through cash flows from operations, new equity issues and conventional short-term and mortgage financing.

Cash Generated from Operating Activities

	2003		2002
($000's)	**Dundee REIT Consolidated July 1 to December 31**	**Division of DRC Combined January 1 to June 30**	Division of DRC Combined Year Ended December 31
Net income	**$ 12,173**	**$ 4,113**	$ 12,883
Non-cash items:			
Depreciation of rental properties	**4,854**	**4,439**	8,311
Amortization of deferred leasing costs	**3,095**	**2,897**	4,701
Loss on disposal of land	**289**	**–**	–
Future income taxes	**32**	**1,675**	4,076
	20,443	**13,124**	29,971
Deferred leasing costs incurred	**(5,450)**	**(2,921)**	(10,361)
Change in working capital	**5,252**	**(621)**	(2,098)
Cash generated from operating activities	**$ 20,245**	**$ 9,582**	$ 17,512

The cash generated from operating activities is influenced by certain of the key performance drivers previously identified:

- Occupancy Level:
  - Tenant retention
  - Attracting new tenants
  - Tenant maturity profile and average term to maturity
- Debt Management:
  - Average interest rate
- Rental Rates:
  - In-place rental rates
  - Increasing rental rates as conditions permit
  - Reducing operating costs
- Capital Management:
  - Tenant inducement costs
  - Building maintenance

Occupancy levels and rental rates are discussed under our results of operations on page 27. With regard to debt management, our weighted average interest rate declined to 6.93% at December 31, 2003 from 7.19% at June 30, 2003 and 7.24% at December 31, 2002.

Our strategy is to fix the rates on as high a proportion of our debt as possible to protect against interest rate volatility. At December 31, 2003, 5.7% of our debt was at floating interest rates, an increase from 3.9% at June 30, 2003, yet still at a level we consider low and consistent with our strategy.

For the six-month period ended December 31, 2003, leasing costs incurred to attract or retain tenants in the properties were $5.5 million (twelve months ended December 31, 2003 - $8.4 million; 2002 - $10.4 million). These costs are capitalized and amortized over the life of the lease. The amount of inducements varies across the portfolio and from year-to-year depending on the maturity and termination of leases, existing vacancies and market requirements.

Leasing costs in 2003 were higher than the normalized levels of prior years as a result of the mix of space being leased and a tighter office leasing market. We anticipate leasing costs in 2004 to exceed normalized costs by approximately $1.5 million as a result of our commitment to the repositioning of two key retail tenants. In 2002, leasing costs included $4.3 million to secure a major tenancy at Northgate Mall.

Our recent acquisitions have helped to decrease the average age of our portfolio and lengthen the average lease term. As a result, we anticipate that the costs per square foot required to maintain our buildings and attract and retain tenants will decrease.

As part of the operating expenses, there are certain property repair and maintenance costs that are recoverable from tenants. These costs are recovered in the year of expenditure or, in the case of a major expenditure, are deferred and amortized to recoverable expense over a period of years. The amount deferred for recovery in future years was $9.4 million at December 31, 2003 ($9.1 million at June 30, 2003; $7.3 million at December 31, 2002).

Cash Utilized in Investing Activities

($000's)	2003 Dundee REIT Consolidated July 1 to December 31	2003 Division of DRC Combined January 1 to June 30	2002 Division of DRC Combined Year Ended December 31
Investment in rental properties – building improvements	$ (2,856)	$ (3,628)	$ (5,585)
Investment in rental properties – development	–	(681)	(9,064)
Acquisition of rental properties	(32,991)	(861)	(915)
Acquisition deposit on rental properties	(14,300)	–	–
Proceeds from disposal of land	367	–	–
Change in restricted cash, net	(9,581)	(106)	(15)
Cash utilized in investing activities	$ (59,361)	$ (5,276)	$ (15,579)

Key performance indicators in the management of our investment activities are:

- Capital Management:
  - Investment in rental properties

During the six months ended December 31, 2003, $47.3 million was invested in the acquisition of rental properties. This amount is not comparable with any recent period for the Division of DRC as the conversion to a Trust positioned us to once again be competitive in the property acquisition market. The particulars of these acquisitions are discussed on page 32.

($000's)	Dundee REIT Consolidated July 1 to December 31, 2003 Office	Industrial	Retail	Total	Year Ended December 31 2003 Total	2002 Total
Acquisitions	$ 107,751	$ –	$ –	$ 107,751	$ 108,612	$ 915
Debt assumed on acquisitions	(74,760)	–	–	(74,760)	(74,760)	–
Net investment	$ 32,991	$ –	$ –	$ 32,991	$ 33,852	$ 915

Capital expenditures for rental property building improvements and equipment were $2.9 million for the six months ended December 31, 2003 (twelve months ended December 31, 2003 - $6.5 million; 2002 - $5.6 million). These expenditures include both recurring items as well as non-recurring one-time projects. Recurring items are capital expenditures that are expected to occur on a regular basis and are part of the ongoing maintenance and upgrading of the rental property portfolio. Non-recurring items are capital expenditures that are incurred for major renovations and do not regularly occur in the normal operation of our rental properties.

($000's)	Dundee REIT Consolidated July 1 to December 31, 2003 Total Investment	Non-cash Working Capital Adjustment	Net Cash Investment	Year Ended December 31 2003 Net Cash Investment	2002 Net Cash Investment
Building improvements:					
Recurring	$ 2,346	$ (580)	$ 1,766	$ 3,317	$ 2,777
Non-recurring	837	253	1,090	3,167	2,808
Total	$ 3,183	$ (327)	$ 2,856	$ 6,484	$ 5,585

Non-recurring improvements during the six-month period reflect the costs of building exterior work on a Toronto office building as well as concrete slab replacement in a Calgary industrial building.

For the twelve months ended December 31, 2003, non-recurring expenses include the costs of a major exterior renovation for a Toronto office property and concrete floor replacements in an industrial property in Calgary and one in Montréal. Non-recurring expenditures in 2002 include $0.9 million for the construction of a new entranceway at Northgate Mall in conjunction with the Zellers lease and the repositioning of an industrial building. We have identified certain properties in our portfolio for repositioning that we anticipate will require approximately $4.0 million in non-recurring redevelopment costs in 2004.

A number of recurring property improvements, such as roof replacement and parking lot structural repair, were completed in each of 2002 and 2003. Based upon our historic spending patterns, we believe that normalized recurring capital expenditures for the existing portfolio are expected to be approximately $2.0 million per year. A major roof replacement program is ongoing at Greenbriar Mall in Atlanta that is anticipated to increase recurring expenditures in 2004 and 2005 by approximately $1.7 million over the two years.

The restricted cash balance increased during the period primarily as a result of providing cash collateral as temporary security for the demand non-revolving credit facility.

Cash Generated from Financing Activities

($000's)	2003 Dundee REIT Consolidated July 1 to December 31	2003 Division of DRC Combined January 1 to June 30	2002 Division of DRC Combined Year Ended December 31
Mortgage principal repayments	**$ (5,397)**	**$ (7,094)**	$ (11,045)
Mortgage debt placed	**–**	**50,918**	106,931
Mortgage lump sum repayments	**(12,439)**	**(32,411)**	(80,467)
Term debt principal repayments	**(460)**	**(1,071)**	(1,572)
New term debt placed	**–**	**–**	6,341
Demand revolving credit facility, net	**7,026**	**–**	–
Demand non-revolving credit facility	**6,619**	**–**	–
Distributions paid	**(7,952)**	**–**	–
Units issued net of costs	**54,113**	**–**	–
Net funds transferred from the Division	**–**	**(15,717)**	(21,091)
Cash generated from (utilized in) financing activities	**$ 41,510**	**$ (5,375)**	$ (903)

The key performance indicators in the management of our debt and equity capital are:

Debt Management:

- Average interest rate
- Level of debt
- Debt maturity profile and average term to maturity

($000's)	as at December 31, 2003 Fixed	Variable	Total	as at June 30, 2003 Fixed	Variable	Total
Mortgages	**$ 483,667**	**$ –**	**$ 483,667**	$ 420,468	$ –	$ 420,468
Term debt	**65,886**	**19,294**	**85,180**	65,570	19,554	85,124
Demand revolving credit facility	**–**	**7,026**	**7,026**	–	–	–
Demand non-revolving credit facility	**–**	**6,619**	**6,619**	–	–	–
Total	**$ 549,553**	**$ 32,939**	**$ 582,492**	$ 486,038	$ 19,554	$ 505,592
Percentage	**94%**	**6%**	**100%**	96%	4%	100%

($000's)	as at December 31, 2003	as at June 30, 2003
Total assets	**$ 997,177**	$ 863,510
Accumulated depreciation	**39,360**	34,645
Gross book value	**$1,036,537**	$ 898,155
Total outstanding debt	**$ 582,492**	$ 505,592
Debt-to-gross book value	**56.2%**	56.3%

We have historically maintained a very conservative debt ratio. Although our Declaration of Trust allows for 65% debt-to-gross book value, our current ratio is 56.2% and our target level of debt is between 55% and 60%.

Changes in debt levels since June 30, 2003 resulting from:

($000's)	Mortgages	Term Debt	Demand Revolving Credit Facility	Demand Non-revolving Credit Facility	Total
Debt as at June 30, 2003	$ 420,468	$ 85,124	$ –	$ –	$ 505,592
New debt placed	–	–	7,026	6,619	13,645
New debt assumed on rental property acquisitions	74,760	–	–	–	74,760
Scheduled repayments	(5,397)	(460)	–	–	(5,857)
Lump sum repayments	(12,439)	–	–	–	(12,439)
Accrued interest	2,807	516	–	–	3,323
Marked-to-market adjustments	4,967	–	–	–	4,967
Foreign exchange adjustment	(1,499)	–	–	–	(1,499)
Debt as at December 31, 2003	$ 483,667	$ 85,180	$ 7,026	$ 6,619	$ 582,492

In the six-month period, overall debt increased $76.9 million or 15.2%, primarily due to the assumption of new debt related to acquisitions in December 2003. During the period, two mortgages matured totalling $12.4 million. Of this amount, $5.8 million was paid with cash from operations and the remainder refinanced with a demand non-revolving credit facility. This facility was used as a short-term measure and will be replaced with a long-term fixed rate mortgage.

($000's)	Debt Maturities Amount	%	Scheduled Principal Repayments on Non-matured Debt Amount	Total	Weighted Average Interest Rate at Time of Maturity
Year ending December 31, 2004	$ 140,259	29	$ 17,570	$ 157,829	6.57
2005	8,917	2	14,218	23,135	6.72
2006	37,268	8	14,005	51,273	7.11
2007	35,835	7	12,287	48,122	7.61
2008	74,532	15	11,387	85,919	6.45
2009 and thereafter	191,523	39	24,691	216,214	7.04
Total	$ 488,334	100	$ 94,158	$ 582,492	

Dundee REIT is committed to lowering its debt service costs and will continue to take advantage of lower interest rates by renegotiating whenever possible. We have $126.6 million of our mortgage and term debt maturing in 2004, most in the first quarter. We are in the process of finalizing negotiations to refinance these loans for longer terms and at lower interest rates.

At year-end, we had a demand revolving credit facility in the amount of $15.6 million, of which $2.9 million was drawn in support of Letters of Credit and $7.0 million by way of cash advances. We have renegotiated this facility and are adding unencumbered assets, in order to increase the facility to approximately $50 million.

Contractual Obligations

The following table provides a summary of the payments due for contractual obligations beginning January 1, 2004 over the next five years and thereafter.

($000's)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Capital lease obligations	$ 510	$ 209	$ 301	$ –	$ –
Operating leases	4,932	767	1,382	1,192	1,591
Ground leases	8,320	1,011	2,223	2,224	2,862
Purchase obligations	3,262	3,262	–	–	–
Total	$ 17,024	$ 5,249	$ 3,906	$ 3,416	$ 4,453

Capital lease obligations are in respect of office equipment and furniture and some minor computer lease obligations. Operating leases are mainly in respect of office space of the property managers and other operating equipment.

Dundee REIT has four ground leases on three Toronto properties. The terms of the first two leases extend to 2083 and 2076: the last two extend to 2060 including renewals. They are at fixed rates for the entire terms with respect to the first and third lease, until September 30, 2006 for the second lease and until June 30, 2010 for the fourth. The renewal terms for the second and fourth leases beyond these dates are defined as variable percentages of the market value of these properties at the date of the renewal, and as such no dollar amounts are shown in the table above. Market rates may be higher or lower than those currently negotiated, however management believes that these rates will be competitive in the then current business environment.

In the normal course of business the Trust enters into contracts for cleaning, snow removal, elevator and other equipment maintenance, security services and other such contracts to effectively manage its properties. These contracts are entered into to provide cost effective and reliable quality services to the tenants. The cost of these contracts are recoverable from the tenants and can vary with occupancy, and are cancelable with minimal or no penalty; therefore these amounts are not reported as obligations of the Trust.

The Trust has entered into a contract for the provision of electricity at a fixed rate to certain Ontario properties. This contract requires the purchase of approximately 90% of the normal historical consumption of electricity at these properties at a fixed cost. Electricity not consumed by the buildings is re-sold on the open market at market rates. The contract is in effect until October 31, 2004 and amounts to $2.7 million of the purchase obligation. The remaining obligation of $0.5 million relates to a gas purchase contract on certain Ontario properties for 90% of their normal historical consumption of gas at these properties. This obligation matures on November 24, 2004. These costs are recoverable from tenants. The amount disclosed under purchase obligations represents the Trust's commitment and, as this cost is recoverable from the tenants and any excess is saleable, management believes there is minimal risk to the Trust.

Equity

The Declaration of Trust authorizes the issuance of an unlimited number of two classes of units: REIT Units and Special REIT Units. The Special REIT Units may only be issued to holders of LP Class B Units, Series 1, are not transferable separately from these units, and are used to provide voting rights with respect to Dundee REIT to persons holding LP Class B Units, Series 1. The LP Class B Units, Series 1 are held by a related party of Dundee REIT.

Both the REIT Units and Special REIT Units entitle the holder to one vote for each unit held at all meetings of the unitholders.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Units issued and outstanding on June 30, 2003	9,370,192	6,909,245	16,279,437
Units issued pursuant to DRIP	124,025	302,186	426,211
Equity issue November 5, 2003	2,600,000	–	2,600,000
Total units outstanding on December 31, 2003	12,094,217	7,211,431	19,305,648
Percentage of all units	62.6%	37.4%	
Redemption	(100)	–	(100)
Equity issue February 19, 2004	4,537,000	–	4,537,000
Units issued pursuant to DRIP up to March 15, 2004	46,235	166,100	212,335
Total units outstanding on March 15, 2004	16,677,352	7,377,531	24,054,883
Percentage of all units	69.3%	30.7%	

Equity Issue

In the fourth quarter, we completed a public offering of 2.6 million REIT Units, Series A at $21.70 per unit for gross proceeds of $56.4 million less costs of $5.2 million. The proceeds of this offering were used primarily for the acquisition of the Palladium Office Campus and the Telus Tower as well as the repayment of certain mortgages on our properties.

Subsequent to year end, we announced the completion of a public offering of 4.5 million REIT Units, Series A at $24.25 per unit for gross proceeds of $110.0 million less estimated costs of $5.7 million.

Funds from Operations

The following table outlines the computation of funds from operations of Dundee REIT:

($000's except per unit amounts)	Dundee REIT Consolidated July 1 to December 31, 2003	Division of DRC Combined January 1 to June 30, 2003
Net income	$ 12,173	$ 4,113
Add (deduct):		
Depreciation of rental properties	4,854	4,439
Amortization of deferred leasing costs	3,095	2,897
Imputed amortization of leasing costs related to the rent supplement	707	–
Loss on disposal of land	289	–
Future income tax expense	32	1,675
FFO	$ 21,150	$ 13,124
FFO per unit	$ 1.22	

Management believes that FFO is an important measure of the Trust's operating performance and is indicative of its cash generating activities. This measurement is generally accepted as one of the most meaningful and useful measures of performance of real estate operations, however, it does not represent cash flow from operating activities as defined by GAAP and is not necessarily indicative of cash available to fund Dundee REIT's needs. It should not be considered the only measure of liquidity.

Distributable Income

Distributable income is not a measure defined by GAAP and therefore may not be comparable to similar measures presented by other real estate investment trusts.

Distributable income is defined in our Declaration of Trust to facilitate the determination of distributions. In addition, on September 11, 2003 the Board of Trustees determined to make an adjustment to the definition of distributable income to permit the add-back with respect to the impact of imputed amortization of leasing costs related to the rent supplement. The imputed amortization represents the amortization of leasing costs that would have been incurred had the space been leased on the terms contained in the rent supplement agreement.

The following table outlines the distributable income of Dundee REIT.

($000's except per unit amount)	Dundee REIT Consolidated July 1 to December 31, 2003
Net income	$ 12,173
Add (deduct):	
Depreciation of rental properties	4,854
Amortization of deferred leasing costs	3,095
Future income tax expense	32
Imputed amortization of leasing costs related to the rent supplement	707
Amortization of fair value debt adjustments, included in interest expense	(181)
Compensation expense, deferred unit incentive plan	113
Loss on disposal of land	289
Adjust for:	
Amortization of deferred costs incurred prior to June 30, 2003	690
Amortization of deferred costs incurred subsequent to June 30, 2003	(462)
Distributable income	$ 21,310
Distributable income per unit	$ 1.23

Distributions

Our distribution policy requires us to make cash distributions to our unitholders, payable monthly, equal to at least 80% of distributable income on an annual basis. We also have a distribution reinvestment and unit purchase plan that entitles unitholders to reinvest all cash distributions made by us in additional units. Unitholders who choose to do so, receive an additional distribution of 4% of each cash distribution that is reinvested.

Cash distributions declared in the year amounted to $19.1 million or 89% of distributable income. Of this amount, $9.3 million or 49% was reinvested in additional units of Dundee REIT.

($000's)	Declared Distributions	Additional Distributions	Total
2003 Distributions			
Paid in cash or reinvestment in units	$ 15,529	$ 253	$ 15,782
Payable at December 31, 2003	3,533	67	3,600
Total distributions paid	$ 19,062	$ 320	$ 19,382
2003 Reinvestment			
Reinvested in 2003	$ 7,577	$ 253	$ 7,830
Reinvested on January 15, 2004	1,680	67	1,747
Total distributions reinvested	$ 9,257	$ 320	$ 9,577
Distributable income	$ 21,310		
Distribution payout ratio	89%		
Reinvestment to distribution ratio	49%		

Our Results of Operations

	2003			2002
($000's)	**Dundee REIT Consolidated July 1 to December 31**	Division of DRC Combined January 1 to June 30	Year Ended December 31 (Total)	Division of DRC Combined Year Ended December 31
Rental properties				
Revenues	**$ 78,162**	$ 74,540	$ 152,702	$ 146,682
Operating expenses	**37,376**	38,493	75,869	73,608
Net operating income	**40,786**	36,047	76,833	73,074
Other expenses				
Interest	**18,858**	18,275	37,133	35,602
Depreciation of rental properties	**4,854**	4,439	9,293	8,311
Amortization of deferred leasing costs	**3,095**	2,897	5,992	4,701
General and administrative	**2,109**	3,339	5,448	5,613
	28,916	28,950	57,866	54,227
Other income				
Interest and fee income, net	**674**	656	1,330	1,424
Income before loss on disposal of land	**12,544**	7,753	20,297	20,271
Loss on disposal of land	**(289)**	–	(289)	–
Income before income and large corporations taxes	**12,255**	7,753	20,008	20,271
Income taxes				
Current income and large corporations taxes	**50**	1,965	2,015	3,312
Future income taxes	**32**	1,675	1,707	4,076
	82	3,640	3,722	7,388
Net income	**$ 12,173**	$ 4,113	$ 16,286	$ 12,883

Revenues

Revenues include net rental or basic income from rental properties as well as the recovery of operating costs, property taxes, parking revenues and other miscellaneous revenues from tenants.

The revenue increase in 2003 was mainly a result of leasing activity and higher rental rates in the Ontario office portfolio, the rent supplement described on page 29, as well as the acquisition of the Palladium Office Campus and the Telus Tower, which contributed $1.6 million to revenue. Leasing impacts revenue and increased occupancy allows us to recover more operating costs from the buildings.

Operating Expenses

Operating expenses are mainly comprised of occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing of the properties. These expenses fluctuate with occupancy levels, weather, utility costs, taxes, repairs and maintenance. We attempt to reduce these costs where possible to lessen the burden on tenants and increase the probability of higher occupancies and net rental income. We actively monitor property taxes and appeal such taxes where appropriate to ensure the most favourable rates are attained.

The increase of operating expenses in 2003 was driven by general increases in costs, property acquisitions and an increase in property taxes in some Montréal municipalities as a result of business taxes formerly levied directly on tenants being included in property taxes.

Interest Expense

Interest expense for the twelve months ended December 31, 2003 increased by $1.5 million or 4.3% over the prior year, mainly as a result of increased debt levels from refinancings in 2002 and 2003 and acquisitions in 2003. Increases in debt in 2002 included the permanent financing of the State Street Financial Centre at rates higher than the original construction loan.

Depreciation of Rental Properties

Depreciation increased $1.0 million or 11.8% for the twelve-month period. Buildings are depreciated on a sinking fund basis and, as a result, depreciation experiences a scheduled 5% increase each year. Also included in these amounts is the impact of building improvements undertaken in 2002 and 2003.

General and Administrative

General and administrative costs are primarily comprised of the expenses related to corporate management, trustees' fees and expenses, and investor relations for Dundee REIT and its subsidiaries. These costs are not comparable year-over-year as the costs for the Division are an allocation of costs and are not representative of costs under the existing structure.

Interest and Fee Income, net

Interest and fee income represents amounts for items such as fees earned from managing properties owned by others, including management, construction and leasing fees, and interest on bank accounts and related fees. These revenues and expenses are not necessarily of a recurring nature and the amounts will vary year-over-year.

Loss on Disposal of Land

A parcel of vacant land adjacent to a retail property was sold at a loss to book value of $0.3 million. Proceeds on the sale were $0.4 million.

Income Tax Expense

Dundee REIT distributes or designates all taxable earnings to unitholders and as such the obligation for tax rests with each unitholder and no tax expense is required on the majority of Dundee REIT's income. Certain Canadian and U.S. subsidiaries of Dundee REIT attract a tax cost, which is reflected in the income statement and balance sheet.

Net Operating Income ("NOI") – Comparative Portfolio

Net operating income is an important measure used by management to evaluate the operating performance of the properties. Net operating income is defined as the total of rental property revenues less operating expenses.

To provide twelve-month results for comparison purposes, the six-month results for Dundee REIT have been grouped with the six-month results of the Division from January 1, 2003 to June 30, 2003. In addition, we have taken the actual six-month results of Dundee REIT in 2003 and compared them to the six-month results of the Division in 2002.

	Six Months Ended December 31				Year Ended December 31			
			Growth				Growth	
($000's)	**2003**	2002	**Amount**	%	**2003**	2002	**Amount**	%
Office	**$ 20,189**	$ 18,398	**$ 1,791**	**10**	**$ 39,083**	$ 37,199	**$ 1,884**	**5**
Industrial	**11,818**	12,112	**(294)**	**(2)**	**23,234**	23,511	**(277)**	**(1)**
Retail	**5,678**	5,972	**(294)**	**(5)**	**11,065**	11,219	**(154)**	**(1)**
Comparative properties	**37,685**	36,482	**1,203**	**3**	**73,382**	71,929	**1,453**	**2**
Rent supplement	**2,180**	–	**2,180**		**2,180**	–	**2,180**	
Acquisitions	**818**	(8)	**826**		**859**	–	**859**	
Under development	**13**	(40)	**53**		**55**	(135)	**190**	
Lease surrenders	**90**	142	**(52)**		**329**	1,762	**(1,433)**	
Other	**–**	(544)	**544**		**28**	(482)	**510**	
NOI	**$ 40,786**	$ 36,032	**$ 4,754**	**13**	**$ 76,833**	$ 73,074	**$ 3,759**	**5**

($000's)	Six Months Ended December 31 2003	2002	Growth Amount	%	Year Ended December 31 2003	2002	Growth Amount	%
Québec	$ 8,080	$ 8,285	$ (205)	(2)	$ 15,494	$ 16,456	$ (962)	(6)
Ontario	16,731	15,092	1,639	11	32,373	29,855	2,518	8
Western Canada	10,404	9,900	504	5	20,696	19,703	993	5
Total Canada	35,215	33,277	1,938	6	68,563	66,014	2,549	4
United States	2,470	3,205	(735)	(23)	4,819	5,915	(1,096)	(19)
Comparative properties	37,685	36,482	1,203	3	73,382	71,929	1,453	2
Rent supplement	2,180	–	2,180		2,180	–	2,180	
Acquisitions	818	(8)	826		859	–	859	
Under development	13	(40)	53		55	(135)	190	
Lease surrenders	90	142	(52)		329	1,762	(1,433)	
Other	–	(544)	544		28	(482)	510	
NOI	$ 40,786	$ 36,032	$ 4,754	13	$ 76,833	$ 73,074	$ 3,759	5

On a comparative basis, NOI increased 3% for the six months ended December 31, 2003 and 2% for the twelve months ended December 31, 2003. These increases are mainly as a result of leasing activity in the Ontario office portfolio, the Western Canada industrial portfolio and at Northgate Mall. The increase in total NOI for the twelve-month period reflects internal growth of $1.4 million or 2% from comparable properties as well as the impact of acquisitions completed in late 2003, offsetting a $1.4 million decrease in lease surrender payments.

The rent supplement of $2.2 million represents amounts funded by DRC based on specific vacancies as previously agreed to upon the formation of Dundee REIT and as included in the property management agreement. This rent supplement will fluctuate as leasing of supplemented space occurs. The supplement is effective for five years for office and retail space and three years for industrial space commencing July 1, 2003. If at any time any of the spaces to which the supplement applies is either leased, sold or ceases to be managed by Dundee Realty Management Corp., the amount of the rent supplement will be permanently reduced by the amount attributed to that space.

Comparative Office Portfolio

For the year ended December 31, 2003, NOI for the comparative office portfolio increased 5% as a result of strong leasing in Ontario. The lease surrender payments in 2002 reflect amounts received in the Toronto office portfolio.

($000's)	Six Months Ended December 31 2003	2002	Growth Amount	%	Year Ended December 31 2003	2002	Growth Amount	%
Québec	$ 3,036	$ 2,773	$ 263	9	$ 5,632	$ 5,698	$ (66)	(1)
Ontario	13,020	11,434	1,586	14	25,057	23,050	2,007	9
Western Canada	4,133	4,191	(58)	(1)	8,394	8,451	(57)	(1)
Comparative properties	20,189	18,398	1,791	10	39,083	37,199	1,884	5
Rent supplement	1,222	–	1,222		1,222	–	1,222	
Acquisitions	859	–	859		859	–	859	
Lease surrenders	89	137	(48)		261	1,746	(1,485)	
Other	(20)	(297)	277		5	(235)	240	
Office NOI	$ 22,339	$ 18,238	$ 4,101	22	$ 41,430	$ 38,710	$ 2,720	7

Comparative Industrial Portfolio

For the year ended December 31, 2003, NOI from the comparative industrial portfolio remained steady with a small decrease of 1%. The Ontario and Western Canada portfolios increased 5% over the prior year as a result of increased occupancy and rental rates. In Montréal, occupancy and rental rates remained steady with the exception of one single tenant property that became vacant in late 2002. This property is included in the space covered by the rent supplement. Leasing in the industrial portfolio has been steady; however, the market is softer than in prior years and management anticipates the same for 2004.

	Six Months Ended December 31				Year Ended December 31			
			Growth				Growth	
($000's)	2003	2002	Amount	%	2003	2002	Amount	%
Québec	$ 4,837	$ 5,343	$ (506)	(9)	$ 9,494	$ 10,404	$ (910)	(9)
Ontario	3,026	3,027	(1)	0	5,945	5,678	267	5
Western Canada	3,955	3,742	213	6	7,795	7,429	366	5
Comparative properties	11,818	12,112	(294)	(2)	23,234	23,511	(277)	(1)
Rent supplement	958	–	958		958	–	958	
Acquisitions	(40)	–	(40)		–	–	–	
Under development	13	(40)	53		55	(134)	189	
Lease surrenders	–	5	(5)		–	14	(14)	
Other	–	(162)	162		2	(162)	164	
Industrial NOI	$ 12,749	$ 11,915	$ 834	7	$ 24,249	$ 23,229	$ 1,020	4

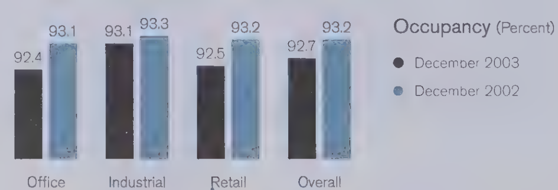
Comparative Retail Portfolio

Retail NOI remained steady in 2003. Favourable results from leasing activity in Ontario and the late 2002 occupancy of Zellers at Northgate Mall were offset by a decrease from Greenbriar Mall largely as a result of fluctuations in the U.S. exchange rate.

	Six Months Ended December 31				Year Ended December 31			
			Growth				Growth	
($000's)	2003	2002	Amount	%	2003	2002	Amount	%
Québec	$ 208	$ 170	$ 38	22	$ 368	$ 355	$ 13	4
Ontario	685	632	53	8	1,371	1,128	243	22
Western Canada	2,315	1,967	348	18	4,507	3,823	684	18
Total Canada	3,208	2,769	439	16	6,246	5,306	940	18
United States	2,470	3,203	(733)	(23)	4,819	5,913	(1,094)	(19)
Comparative properties	5,678	5,972	(294)	(5)	11,065	11,219	(154)	(1)
Acquisitions	–	(8)	8		–	(1)	1	
Lease surrenders	–	–	–		68	2	66	
Other	20	(85)	105		21	(85)	106	
Retail NOI	$ 5,698	$ 5,879	$ (181)	(3)	$ 11,154	$ 11,135	$ 19	–

Leasing Profile

The overall percentage of occupied and committed space across our stabilized rental properties portfolio remains strong at 92.7%. Occupancy rates include actual and committed space at December 31, 2003 and exclude space to which the rent supplement is applied.



Summary of leasing activity to December 31, 2003:

(square feet)	Office	Industrial	Retail	Total
Vacant space available – July 1, 2003	223,560	360,482	96,938	680,980
Remeasurements	420	(133)	981	1,268
Leases expiring or terminated	345,341	503,151	76,884	925,376
Transferred to redevelopment	–	(33,835)	–	(33,835)
Available space in acquired assets	248	–	–	248
Total space available for lease	569,569	829,665	174,803	1,574,037
New tenants	84,714	140,075	18,615	243,404
Renewals	163,416	284,311	51,997	499,724
Total space leased	248,130	424,386	70,612	743,128
Total space available for lease – January 1, 2004	321,439	405,279	104,191	830,909
Net increase in vacant space	97,879	44,797	7,253	149,929

On June 30, 2003, our portfolio occupancy was 93.8%. During the six months ended December 31, 2003, 925,376 square feet of leases expired and new leasing or renewals totaled 743,128 square feet. Our year-end occupancy rate was 92.7%, representing a decrease of just under 150,000 square feet. In 2004, approximately 1.5 million square feet will mature.

Lease maturity profile as at December 31, 2003 by asset type:

(square feet)	Current Vacancy	Current Monthly Tenancies	2004	2005	2006	2007	2008 and thereafter	Total
Office	321,439	98,688	426,912	505,793	455,353	349,485	2,049,729	4,207,399
Industrial	405,279	111,013	1,010,983	1,117,628	921,301	728,176	1,563,243	5,857,623
Retail	104,191	27,491	93,511	89,062	53,379	154,992	867,652	1,390,276
Total	830,909	237,192	1,531,406	1,712,482	1,430,033	1,232,653	4,480,623	11,455,298
Percentage	7.3	2.1	13.4	14.9	12.5	10.8	39.1	100.0
Properties under redevelopment[1]								219,155
Total								11,674,453

(1) Includes 15303-128th Avenue, Edmonton and 11 Place du Commerce, Montréal.

Annualized Contract Rent at Expiry (psf):

	Current Monthly Tenancies	2004	2005	2006	2007	2008 and thereafter	Overall Weighted Average
Office	$ 5.57	$ 11.95	$ 12.28	$ 13.36	$ 13.41	$ 15.98	$ 14.26
Industrial	4.64	4.46	4.95	4.93	5.06	5.05	4.89
Retail	9.13	16.09	17.92	7.49	10.33	9.58	10.63
Weighted Average	5.54	7.26	7.79	7.71	8.09	10.93	9.01

Based on available industry statistics, most markets are experiencing a positive change in occupied space ("absorption"). The Calgary office market has experienced increased occupancy, while other markets remain relatively flat. The national industrial market has also experienced positive absorption but the absorption is being matched with new supply. In our portfolio, occupancy has increased in the Calgary and Ottawa office portfolios while the balance of the portfolio has experienced slightly increased vacancy. Leasing activity subsequent to year-end will have a positive impact on 2004 results.

The leasing process continues to be long. Management believes that increased leasing inquiries are indicative that we will likely experience some occupancy growth in 2004. However, we do not anticipate rental increases across all of our markets in 2004.

Average remaining lease term as at December 31, 2003 and other portfolio information:

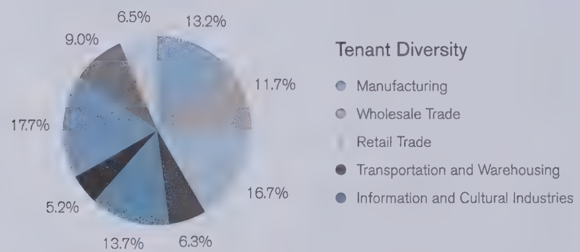
	Average Remaining Lease Term (years)	Average Tenant Size (sq. ft.)	Average In-place Contract Rent (per sq. ft.)	Estimated Current Market Rent (per sq. ft.)	Premium of Estimated Current Market Rent Over Average In-place Contract Rent
Office	5.09	7,714	$ 13.11	$ 13.63	4.0%
Industrial	3.05	12,875	4.71	4.83	2.5%
Retail	6.87	5,567	10.10	11.01	9.0%
Overall	4.26	9,150	8.43	8.80	4.4%

Dundee REIT has a broad tenant base with the average tenant occupying approximately 9,000 square feet. The result is a large and diverse tenant base. With over 1,300 tenants, lease renewals are frequent and our exposure to any large single lease is relatively low.

Tenants requiring smaller spaces typically do not have the planning time horizons associated with larger tenants. As a result, our larger tenants will often commit to leases with a 10- to 15-year term, while smaller tenants will commit to leases with an average term of one to three years. This is reflected in our average remaining lease term of just over four years and our lease maturity profile. We have extensive experience in managing our lease renewals, as many of the same tenants renew annually and have been doing so for a number of years. Our success is evident in our track record. Despite vacancy rates rising in many markets across Canada, the lease maturity profile of our properties has been consistent and our occupancy levels have fluctuated only within a very narrow range.

A trend amongst our tenants is that they are beginning to make longer-term commitments. However, this has not yet turned into increased demand for space. Business growth appears to be fueled by increasing productivity. We anticipate that as the economic recovery continues, there will be increased demand for space but as of yet we have not experienced it.

The following chart illustrates the diversity of our tenant base broken down by the percentage contribution to total contract rent. Tenants have been classified according to their North American Industry Classification System ("NAICS") codes, which is one system used for classifying the industry in which tenants operate.



Our two largest tenants, Telus Communications and the Government of Canada, comprise 5.5% and 4.8%, respectively, of our gross rental revenue. This table sets out the percentage contribution to gross rental revenue (annualized at December 31, 2003) of our ten largest tenants:

Tenant	Owned Area (sq. ft.)	% of Owned Area	% of Gross Rental Revenue	Expiry
Telus Communications	329,695	2.8	5.5	2016
Government of Canada	274,170	2.3	4.8	2004–2011
Government of Ontario	188,716	1.6	2.6	2004–2008
Bell Canada	183,306	1.6	2.3	2004–2009
State Street Trust Company	93,586	0.8	2.3	2012
International Financial Data Services	96,015	0.8	2.3	2013
Government of British Columbia	91,748	0.8	2.0	2006–2009
IBM Canada	112,105	1.0	1.8	2005–2011
Spirent Communications	80,550	0.7	1.6	2011
Epcor Utilities	169,614	1.5	1.4	2011
Total	1,619,505	13.9	26.7	

Acquisitions

During the six months ended December 31, 2003, Dundee REIT completed the acquisition of two properties resulting in an increase of our total assets to $997.2 million.

On November 27, 2003, we acquired the Palladium Office Campus in suburban Ottawa for approximately $37.2 million. Completed in 2001, this complex is comprised of three buildings totalling 229,000 square feet and is currently leased to three tenants – IBM, DRS Technologies and Spirent Communications.

On December 3, 2003, we purchased a 50% interest in the Telus Tower in downtown Calgary for approximately $68.0 million. Our strategic partner for this acquisition, H&R Real Estate Investment Trust, acquired the remaining 50% and also manages the building. The Telus Tower is a 705,000 square foot 28-storey Class A building that was constructed in 1981. Telus Communications leases approximately 93% of the building until 2016 and the remaining space is leased to the Government of Alberta and other local tenants.

Subsequent to Year-End

On February 20, 2004, we completed the purchase of 1.5 million square feet of newly constructed office, industrial and flex space in the Calgary and Toronto markets for approximately $155.0 million from The Pauls Corporation (the "Pauls Portfolio"). The portfolio consists of nine flex industrial properties and three office properties in Calgary totalling approximately 596,000 square feet and three flex industrial properties, four industrial warehouse properties and one office property in Toronto totalling approximately 928,000 square feet.

The buildings are all state-of-the-art facilities and are clustered in high-end business parks. There are currently 66 high-quality and diverse tenants in the portfolio, many with internationally recognizable names, such as Siemens, UPS, Bell Canada, Royal Bank and Pfizer.

The acquisition was financed by assuming $65.7 million of existing debt at an average interest rate of 6.21% and the balance was financed from the proceeds of the equity issue completed in February 2004. We have since signed a commitment letter for $25.0 million in new first mortgages on five unencumbered buildings at 5.51% for seven years.

On March 8, 2004, we acquired a newly completed 73,000 square foot flex industrial property from The Pauls Corporation for $9.7 million, representing a capitalization rate of 8.6%. The major tenant of this property is Schawk Communications and has a lease extending to December 2014. A first mortgage will be arranged.

We have an option to acquire additional buildings constructed by The Pauls Corporation on 28 acres of land in the Airport Corporate Centre West in Toronto as they are completed and leased. The acquisition price will be based on a formula that provides a discount to the then current market price. We have provided $9.8 million in the form of a mezzanine loan on the vacant land.

These properties are all of extremely high quality and have low normalized leasing and maintenance capital expenditure requirements. The acquisitions will lengthen our average lease term and increase our average net rent.

($000's)	Property Type	Sq. Ft.	Date Acquired	Purchase Price	% Ownership
Palladium Office Campus, Ottawa	Office	229,157	November 27, 2003	$ 37,200	100%
Telus Tower, Calgary	Office	705,120	December 3, 2003	$ 68,000	50%
Pauls Portfolio					
Toronto	Office	30,091			
Toronto	Flex/Industrial	476,469			
Toronto	Industrial	421,820			
Calgary	Office	98,252			
Calgary	Flex/Industrial	498,048			
Total Pauls Portfolio		1,524,680	February 20, 2004	$ 155,000	100%
1620 Tech Avenue, Toronto	Flex/Industrial	73,347	March 8, 2004	$ 9,700	100%
Total		2,532,304			

Quarterly Information

The following table shows quarterly information since the inception of Dundee REIT at June 30, 2003.

($000's)	Three Months Ended December 31, 2003	Three Months Ended September 30, 2003
Rental properties		
Revenues	$ 40,996	$ 37,166
Operating expenses	20,163	17,213
Net operating income	20,833	19,953
Other expenses		
Interest	9,631	9,227
Depreciation of rental properties	2,588	2,266
Amortization of deferred leasing costs	1,703	1,392
General and administrative expense	1,115	994
	15,037	13,879
Other income		
Interest and fee income, net	484	190
Income before loss on disposal of land	6,280	6,264
Loss on disposal of land	289	–
Income before income and large corporations taxes	5,991	6,264
Income taxes		
Current income and large corporations taxes	35	15
Future income taxes	65	(33)
	100	(18)
Net income	5,891	6,282
Add (deduct):		
Depreciation of rental properties	$ 2,588	$ 2,266
Amortization of deferred leasing costs	1,703	1,392
Future income tax	65	(33)
Imputed amortization of leasing costs due to rent supplement	375	332
Loss on disposal of land	289	–
Funds from operations	10,911	10,239
Add (deduct):		
Amortization of fair value debt adjustments, included in interest expense	$ (106)	$ (75)
Compensation expense related to deferred unit incentive plan	104	9
Amortization of deferred costs incurred prior to June 30, 2003	361	329
Amortization of deferred costs incurred subsequent to June 30, 2003	(419)	(43)
Distributable income	$ 10,851	$ 10,459
Net income per unit, basic and diluted	$ 0.32	$ 0.38
Funds from operations per unit	$ 0.59	$ 0.63
Distributable income per unit	$ 0.59	$ 0.64
Weighted average number of units outstanding	18,203,105	16,331,369

Risks and Our Strategy to Manage

Dundee REIT is exposed to various risks and uncertainties. Risk factors inherent in an investment in our units include but are not limited to the following:

Real Estate Ownership

Real estate ownership is generally subject to numerous risks, including changes in general economic conditions, such as the availability and cost of mortgage funds, local economic conditions (such as an oversupply of office, industrial and retail properties or a reduction in demand for real estate in the area), the attractiveness of properties to potential tenants or purchasers, competition of others with available space, the ability of the owner to economically provide adequate maintenance and other factors.

Our portfolio of properties generates income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may also be less favourable than the existing lease. Our financial position would be adversely affected if a number of tenants were to become unable to meet their current or future obligations under their leases or if a significant amount of available space in the properties could not be leased on economically favourable lease terms.

Diversity mitigates risk. The diversity of our portfolio by asset type and geographic location helps to minimize our exposure to any single market or asset class. We also attempt to stagger lease maturities to protect against large vacancies in any given year or market. Further, Dundee REIT has a broad tenant base with the largest tenant occupying less than 3% of gross leaseable area and comprising 5.5% of our gross rental revenue. For further information, please see "Leasing Profile" discussion on page 30.

Illiquidity of Real Estate Investments

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In recessionary times it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable and during an economic recession we may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for us to dispose of properties at lower prices in order to generate sufficient cash for operations and making distributions. We manage our portfolio actively and are attentive to market conditions and property values. We review our properties on an on-going basis to identify strengths and weaknesses of individual properties and our portfolio as a whole, allowing us to quickly reposition assets when warranted or identify non-core or under-performing assets for disposition.

Competition in the Office, Industrial and Retail Real Estate Market

We compete with other investors, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Competition could have a material adverse effect on our ability to lease space in our properties and on the rents we are able to charge. This could adversely affect our revenues and our ability to meet our obligations. We strive to deliver a level of service that meets or exceeds tenant expectations. We believe that providing a consistent, high level of service puts us into a better position to re-lease space to existing tenants and helps to attract new tenants to lease vacant space quickly and cost effectively.

Environmental Risk

As an owner of real property, we are subject to various federal, provincial, state and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect our ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against us.

We have formal policies and procedures to review and monitor environmental exposure. These policies include the requirement to obtain a Phase I Environmental Site Assessment, conducted by an independent and qualified environmental consultant, before acquiring any real property or any interest therein.

Financing Risk

Upon the expiry of the term of the financing or refinancing of any particular property or operating or acquisition debt facilities, refinancing may not be available in the amounts required or may be available only on terms less favourable to us than existing financing. We may require additional financing in order to grow and expand our operations. It is possible that such financing will not be available or available on unfavourable terms. Future financing may take many forms, including debt or equity financing, which could alter the current debt-to-equity ratio and dilute our unitholders interest. It is our intent to reduce the interest rate risk associated with refinancing by ensuring that debt maturities are staggered over several years, with limited exposure in any given year. For further information, please see "Our Resources and Financial Condition" discussion on page 21.

Insurance

We carry general liability, umbrella liability and excess liability insurance with a total limit of $61.0 million. For the property risks we carry "All Risks" property insurance including but not limited to, flood, earthquake and loss of rental income insurance (with a 24-month indemnity period). We also carry boiler and machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident), which are uninsurable under any insurance policy. Furthermore there are other risks that are not economically viable to insure at this time. We currently self-insure against terrorism risk for the entire Canadian portfolio. Additionally, we generally have owners' title insurance policies with respect to our properties located in the United States.

Joint Venture, Partnership and Co-ownership Agreements

We are a participant in joint ventures and partnerships with third parties in respect of 10 of our properties. A joint venture or partnership involves certain additional risks, including:

(i) the possibility that such co-ventures/partners may at any time have economic or business interests or goals that will be inconsistent with ours. They may also take actions that are contrary to our instructions, requests, policies and objectives with respect to our real estate investments;

(ii) the risk that such co-ventures/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands on Dundee REIT to maintain and operate such properties or repay the co-ventures/partners' share of property debt guaranteed by us. We could be liable for expenses, delays and other problems associated with obtaining court approval of joint venture or partnership decisions;

(iii) the risk that such co-ventures/partners may, through their activities on behalf of or in the name of, the ventures or partnerships, expose or subject us to liability; and

(iv) the need to obtain co-ventures/partners' consents with respect to certain major decisions.

Our investment in properties through joint venture and partnership agreements is subject to the investment guidelines set out in our Declaration of Trust.

Unitholder Liability

Because of uncertainties in the law relating to investment trusts, there is a remote possibility that a unitholder could be held personally liable for our obligations (to the extent that claims are not satisfied by Dundee REIT) in respect of contracts which we enter into and for certain liabilities arising other than out of contract including claims in tort, claims for taxes and possibly certain other statutory liabilities.

Critical Accounting Estimates

Management of Dundee REIT believes the policies outlined below are those most subject to estimation and management's judgment.

Impairment of Assets

Under Canadian GAAP, management is required to write down to fair value, any long-lived asset that is determined to have been permanently impaired. Dundee REIT's long-lived assets consist of rental properties and deferred costs relating to those properties. The fair value of rental properties and their associated deferred costs is dependent upon anticipated future cash flows from operations over the anticipated holding period.

The review of anticipated cash flows involves subjective assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors, which may affect the ultimate value of the property. These assumptions are subjective and may not ultimately be achieved.

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment loss would be recognized. There were no impairment losses recorded for 2003.

Depreciation

Depreciation is recorded on buildings using a 5%, 40-year sinking fund basis. A significant portion of the acquisition cost of each property is allocated to building. The allocation of the acquisition cost to building and the determination of the useful life are based upon management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

Income Taxes

Preparation of the Trust's consolidated financial statements requires that we estimate our income tax expense and liabilities related to our corporate subsidiaries as well as the reported amount by which the carrying value of our net assets exceed their corresponding tax cost. We used our judgment to determine these amounts, and ultimate liabilities for income taxes could be different from the amounts presented.

Changes in Accounting Policies

Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination

The Canadian Institute of Chartered Accountants ("CICA") has issued new guidance related to the accounting for rental property acquisitions initiated after September 12, 2003 that significantly changes the methodology for allocating the purchase price of all future acquisitions. The Trust must determine the fair value of a number of different components that previously were not considered in the purchase price allocation such as tenant inducements, above and below market leases, in-place leases and tenant relationships. This guidance will result in a smaller portion of the purchase price being allocated to buildings and effectively accelerate some of the depreciation or amortization of the acquired assets. The Trust is presently assessing the impact of this new guidance on its acquisitions completed subsequent to year-end.

Generally Accepted Accounting Principles

Section 1000 of the CICA Handbook clarifies the hierarchy of GAAP in Canada. This new section codifies the sources of Canadian GAAP and establishes the authority of sources of GAAP outside the CICA Handbook. The most significant impact is to remove industry precedent as an appropriate source of GAAP. This new section will have the following impact on Dundee REIT:

Depreciation of Rental Properties

The sinking fund method of depreciating rental properties will be discontinued and, effective January 1, 2004, we will depreciate our rental properties on a straight-line basis over their remaining estimated useful life. This change will be adopted on a prospective basis and we estimate that depreciation expense for the 2004 fiscal year will increase by approximately $12 million, based upon the portfolio of properties at December 31, 2003.

Revenue Recognition

At present, revenues from leases that include contractual increases in basic rents are only accounted for on a straight-line basis where such increases exceed expected increases in the projected Consumer Price Index. Under the new policy to be adopted by the Trust, the total amount of revenue to be received from such leases will be accounted for on a straight-line basis over the term of the respective lease. In conjunction with the recognition of revenue, a receivable from tenants will be recorded to reflect the difference between the amount recognized for accounting and the amount contractually due. This change will be adopted on a prospective basis commencing on January 1, 2004. For 2004, we estimate an increase in revenues from rental properties of approximately $2.6 million as a result of this policy change, based upon leases in place at December 31, 2003.

Impairment of Long-lived Assets

This new standard is effective January 1, 2004 and requires a two-step process for determining when an impairment of long-lived assets should be recognized in the financial statements. When impairment is determined to exist, the impaired asset is written down to fair value as opposed to net recoverable amount.

Conclusion and Outlook

The Canadian economy performed better than expected given the severe challenges in 2003 including the outbreak of SARS, Mad Cow disease and the Ontario blackout. Although these challenges appear to be behind us, the economy is still adjusting to the impact of a fundamental change in the Canadian dollar against the U.S. dollar. The appreciation of our dollar will cause significant adjustments to our economy over the next year or longer as businesses and individuals adjust their buying habits to take into account the shift in values.

Over the past few years, the Canadian economy has outperformed that of the U.S. That trend appears to be changing as the U.S. economy is showing signs of a strong recovery. If the U.S. enters a period of sustained recovery, our economy should benefit as well.

In the property markets across Canada there is a general belief that the markets have bottomed out and are on the upswing. Absorption rates have turned neutral or positive for both office and industrial properties in most markets. Higher vacancy rates have resulted in strong tenants' markets across Canada and rental rates remain significantly lower than they were two years ago. Landlords, including us, are providing incentives for tenants in order to keep face rates at acceptable levels in their portfolio.

Leasing in our portfolio throughout 2003, and in particular that achieved late in the year, will enhance our performance in 2004. The acquisitions completed in 2003 and subsequent to year-end are high quality, newly constructed properties that will contribute to the overall value of our business. They increase the average rent and lease term across our portfolio, reduce our overall average interest cost and increase the average term to maturity of our debt.

The initiatives undertaken in 2003 and 2004 enhance our business and provide further stability to our cash flow. Dundee REIT began with a good portfolio and one that we continue to make even better. We are optimistic that further opportunities lie ahead through which we will add even greater value to our REIT.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this Annual Report have been prepared by, and are the responsibility of, the management of Dundee Real Estate Investment Trust. These financial statements have been prepared in accordance with Canadian GAAP, using management's best estimates and judgments when appropriate.

The Board of Trustees is responsible for ensuring that management fulfils its responsibility for financial reporting and internal control. The audit committee, which is comprised of trustees, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial responsibilities and to review its consolidated financial statements and the report of the auditors. The audit committee reports its findings to the Board of Trustees, which approves the consolidated financial statements.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the audit committee, with or without management present.

Michael J. Cooper
President and
Chief Executive Officer

Jeff B. Barnes
Executive Vice-President
and Chief Financial Officer

Toronto, Ontario
February 19, 2004

AUDITORS' REPORTS

Dundee Real Estate Investment Trust
Consolidated Financial Statements
Auditors' Report

To the Trustees of Dundee Real Estate Investment Trust:

We have audited the consolidated balance sheets of Dundee Real Estate Investment Trust as at December 31, 2003 and June 30, 2003 and the consolidated statements of net income, unitholders' equity and cash flows for the six months ended December 31, 2003. These financial statements are the responsibility of Dundee Real Estate Investment Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dundee Real Estate Investment Trust as at December 31, 2003 and June 30, 2003 and the results of its operations and its cash flows for the six months ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
February 19, 2004

Commercial Real Estate Division of Dundee Realty Corporation
Combined Financial Statements
Auditors' Report

To the Directors of Dundee Realty Corporation:

We have audited the combined balance sheets of the Commercial Real Estate Division of Dundee Realty Corporation as at June 30, 2003 and December 31, 2002 and the combined statements of net income, divisional equity and cash flows for the six months ended June 30, 2003 and the year ended December 31, 2002. These financial statements are the responsibility of Dundee Realty Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Commercial Real Estate Division of Dundee Realty Corporation as at June 30, 2003 and December 31, 2002 and the results of its operations and its cash flows for the six months ended June 30, 2003 and the year ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
September 3, 2003

CONSOLIDATED FINANCIAL STATEMENTS

Dundee Real Estate Investment Trust and Commercial Real Estate Division of Dundee Realty Corporation
Balance Sheets

(in thousands of dollars)	Note	Dundee REIT Consolidated December 31, 2003	Dundee REIT Consolidated June 30, 2003	Commercial Real Estate Division of Dundee Realty Corporation ("Division of DRC") Combined June 30, 2003	Commercial Real Estate Division of Dundee Realty Corporation ("Division of DRC") Combined December 31, 2002
Assets					
Rental properties	3	**$ 915,050**	$ 811,339	$ 811,339	$ 822,415
Deferred costs	4	**38,177**	34,802	34,802	31,725
Amounts receivable	5	**7,268**	6,156	5,850	5,568
Prepaid expenses and other assets	6	**32,706**	9,631	9,631	6,852
Cash and short-term deposits		**3,976**	1,582	1,582	2,651
		$ 997,177	$ 863,510	$ 863,204	$ 869,211
Liabilities					
Debt	7	**$ 582,492**	$ 505,592	$ 505,592	$ 504,159
Amounts payable and accrued liabilities	8	**17,393**	16,191	16,191	14,620
Distributions payable	9	**3,600**	–	–	–
Future income tax liability	13	**7,737**	8,000	64,902	59,838
		611,222	529,783	586,685	578,617
Equity					
Unitholders' equity	10	**385,955**	333,727	–	–
Divisional equity		**–**	–	276,519	290,594
		$ 997,177	$ 863,510	$ 863,204	$ 869,211

See accompanying notes to the consolidated and combined financial statements

On behalf of the Board of Trustees of Dundee Real Estate Investment Trust:

Ned Goodman
Trustee

Michael J. Cooper
Trustee

On behalf of the Board of Directors of Dundee Realty Corporation:

Jeff B. Barnes
Director

Michael J. Cooper
Director

Dundee Real Estate Investment Trust and Commercial Real Estate Division of Dundee Realty Corporation
Statements of Net Income

(in thousands of dollars, except per unit amounts)	Note	2003 Dundee REIT Consolidated July 1 to December 31		2003 Division of DRC Combined January 1 to June 30		2002 Division of DRC Combined For the Year Ended December 31, 2002
Rental properties						
Revenues		**$**	**78,162**	$ 74,540		$ 146,682
Operating expenses			**37,376**	38,493		73,608
Net operating income			**40,786**	36,047		73,074
Other expenses						
Interest	12		**18,858**	18,275		35,602
Depreciation of rental properties			**4,854**	4,439		8,311
Amortization of deferred leasing costs			**3,095**	2,897		4,701
General and administrative			**2,109**	3,339		5,613
			28,916	28,950		54,227
Other income						
Interest and fee income, net			**674**	656		1,424
Income before loss on disposal of land			**12,544**	7,753		20,271
Loss on disposal of land			**(289)**	–		–
Income before income and large corporations taxes			**12,255**	7,753		20,271
Income taxes	13					
Current income and large corporations taxes			**50**	1,965		3,312
Future income taxes			**32**	1,675		4,076
			82	3,640		7,388
Net income		**$**	**12,173**	$ 4,113		$ 12,883
Net income per unit						
Basic and diluted	14	**$**	**0.71**			

See accompanying notes to the consolidated and combined financial statements

Dundee Real Estate Investment Trust
Consolidated Statement of Unitholders' Equity

(in thousands of dollars, except unit amounts)	Note	Number of Units	Amount	Cumulative Foreign Currency Translation Adjustment	Total
Unitholders' equity, June 30, 2003		16,279,437	$ 335,455	$ (1,728)	$ 333,727
Net income		–	12,173	–	12,173
Distributions paid	9	–	(15,782)	–	(15,782)
Distributions payable	9	–	(3,600)	–	(3,600)
Public Offering of Units	10c	2,600,000	56,420	–	56,420
Distribution Reinvestment Plan	10d	355,847	7,830	–	7,830
Unit Purchase Plan	10e	70,364	1,536	–	1,536
Deferred Unit Incentive Plan	10f	–	113	–	113
Issue costs	10c	–	(5,193)	–	(5,193)
Change in foreign currency translation adjustment		–	–	(1,269)	(1,269)
Unitholders' equity, December 31, 2003		19,305,648	$ 388,952	$ (2,997)	$ 385,955

Commercial Real Estate Division of Dundee Realty Corporation
Combined Statements of Divisional Equity

(in thousands of dollars)	For the Period from January 1, 2003 to June 30, 2003	For the Year Ended December 31, 2002
Divisional equity, beginning of period	$ 290,594	$ 299,174
Net income	4,113	12,883
Change in foreign currency translation adjustment	(2,471)	(372)
Net funds transferred to Dundee Realty Corporation	(15,717)	(21,091)
Divisional equity, end of period	$ 276,519	$ 290,594

See accompanying notes to the consolidated and combined financial statements

Dundee Real Estate Investment Trust
and Commercial Real Estate Division of Dundee Realty Corporation
Statements of Cash Flows

(in thousands of dollars)	Note	2003 Dundee REIT Consolidated July 1 to December 31	2003 Division of DRC Combined January 1 to June 30	2002 Division of DRC Combined For the Year Ended December 31, 2002
Generated from (utilized in) operating activities				
Net income		**$ 12,173**	$ 4,113	$ 12,883
Non-cash items:				
Depreciation of rental properties		**4,854**	4,439	8,311
Amortization of deferred leasing costs		**3,095**	2,897	4,701
Loss on disposal of land		**289**	–	–
Future income taxes		**32**	1,675	4,076
		20,443	13,124	29,971
Deferred leasing costs incurred		**(5,450)**	(2,921)	(10,361)
Change in working capital		**5,252**	(621)	(2,098)
		20,245	9,582	17,512
Generated from (utilized in) investing activities				
Investment in rental properties		**(2,856)**	(4,309)	(14,649)
Acquisition of rental properties	3	**(32,991)**	(861)	(915)
Acquisition deposit on rental properties	6	**(14,300)**	–	–
Proceeds from disposal of land		**367**	–	–
Change in restricted cash, net		**(9,581)**	(106)	(15)
		(59,361)	(5,276)	(15,579)
Generated from (utilized in) financing activities				
Mortgage principal repayments		**(5,397)**	(7,094)	(11,045)
Mortgage debt placed	3	**–**	50,918	106,931
Mortgage lump sum repayments		**(12,439)**	(32,411)	(80,467)
Term debt principal repayments		**(460)**	(1,071)	(1,572)
New term debt placed		**–**	–	6,341
Demand revolving credit facility, net		**7,026**	–	–
Demand non-revolving credit facility		**6,619**	–	–
Distributions paid	9	**(7,952)**	–	–
Units issued net of costs		**54,113**	–	–
Net funds transferred from the Division		**–**	(15,717)	(21,091)
		41,510	(5,375)	(903)
Increase (decrease) in cash and cash equivalents		**2,394**	(1,069)	1,030
Cash and short-term deposits, beginning of period		**1,582**	2,651	1,621
Cash and short-term deposits, end of period		**$ 3,976**	$ 1,582	$ 2,651

See accompanying notes to the consolidated and combined financial statements

1. Basis of Financial Statement Presentation

These financial statements present the financial position of Dundee Real Estate Investment Trust ("Dundee REIT") at December 31, 2003 and the results of its operations and its cash flows from the commencement of its operations on July 1, 2003 to December 31, 2003 and the financial position of the commercial real estate division of Dundee Realty Corporation (the "Division") at June 30, 2003 and the results of the Division's operations and its cash flows for the year ended December 31, 2002 and the six months ended June 30, 2003.

References herein to the "Trust" refer collectively to Dundee REIT as at, and for any period after June 30, 2003, and to the Division for periods prior to and including June 30, 2003. Except for the impact of the conversion of the Division to Dundee REIT (see below) and unless otherwise indicated, balances for Dundee REIT as at June 30, 2003 are the same as balances of the Division as at June 30, 2003.

These financial statements have been prepared in accordance with the accounting recommendations of The Canadian Institute of Chartered Accountants ("CICA") and are substantially in accordance with the practices recommended by the Canadian Institute of Public and Private Real Estate Companies ("CIPPREC").

Dundee REIT

Dundee REIT is an open-ended investment trust created pursuant to a Declaration of Trust under the laws of the Province of Ontario dated May 9, 2003 as amended and restated (the "Declaration of Trust").

The consolidated balance sheet of Dundee REIT includes the accounts of Dundee REIT and its subsidiaries, together with Dundee REIT's proportionate share of the assets and liabilities of joint ventures in which it participates. Included in these accounts are the assets and liabilities acquired by Dundee Properties Limited Partnership ("DPLP") from Dundee Realty Corporation ("DRC") on June 30, 2003 (the "Transfer") comprising:

- a portfolio of office, industrial and retail rental properties together with their related assets and liabilities; and
- a 50% interest in a joint venture comprising the property management operations of DRC relating to revenue properties (Dundee Management Limited Partnership, or "DMLP").

As a result of completion of the Arrangement noted below, DPLP is an indirect subsidiary of Dundee REIT.

As consideration for the Transfer of the Division, and pursuant to completion of the Plan of Arrangement of Dundee Realty Corporation dated June 30, 2003 (the "Arrangement"), a series of transactions ultimately resulted in Dundee REIT issuing REIT Units, Series A to certain public shareholders of DRC, and DPLP issuing LP Class B Units, Series 1 that are held directly and indirectly by DRC. As partial consideration for the Transfer, DPLP issued LP Notes, Series 1, LP Notes, Series 2, and LP Notes, Series 3 (collectively the "LP Notes"). Pursuant to the completion of the Arrangement, the LP Notes were transferred to Dundee REIT in consideration for the issuance by Dundee REIT of REIT Units, Series A. These LP Notes were then transferred to Dundee Properties Operating Trust A ("OTA"), whose sole unitholder is Dundee REIT, in consideration for OTA notes and additional OTA Units, and OTA then transferred the LP Notes to DPLP in consideration for LP Class A Units. These transactions, combined, had no net effect on the consolidated balance sheet of Dundee REIT. The LP Class B Units, Series 1 are generally exchangeable on a one-for-one basis for REIT Units, Series B at the option of the holder. The LP Class B Units, Series 1 generally have economic and voting rights equivalent in all material respects to REIT Units, Series A. The REIT Units, Series A and REIT Units, Series B generally have economic and voting rights equivalent in all material respects to each other. Accordingly, the LP Class B Units, Series 1 are classified as Unitholders' equity in the consolidated balance sheet of Dundee REIT.

The assets and liabilities of the Division acquired in the Transfer have been measured under the continuity of interests accounting method at DRC's historical carrying amounts at June 30, 2003 as there was no substantive change in the ultimate ownership interests in the Division. As a result, the Divisional equity of the Division at June 30, 2003 became the opening Unitholders' equity of Dundee REIT subject to certain adjustments noted below. Because the continuity of interests method of accounting was used, the financial position, results of operations and cash flows of the Division have been presented as comparative information for Dundee REIT.

The differences between the consolidated balance sheet of Dundee REIT at its commencement on June 30, 2003 and the combined balance sheet of the Division at June 30, 2003 comprises:

- The elimination of a majority of the future tax liability of the Division as at June 30, 2003. The future tax liability of Dundee REIT of $8,000 at June 30, 2003 is with respect to Dundee REIT's corporate subsidiaries that remain taxable; and
- The issuance pursuant to the Arrangement of 15,000 REIT Units, Series A to DRC, in exchange for a demand promissory note of $306 included in amounts receivable at June 30, 2003, and subsequently collected.

The following table reconciles the Divisional equity of the Division at June 30, 2003 to the opening Unitholders' equity of Dundee REIT on June 30, 2003:

	Divisional equity	Unitholders' equity	Cumulative foreign currency translation adjustment	Total
Divisional equity – June 30, 2003	$ 277,084	$ –	$ (565)	$ 276,519
Elimination of majority of the future income tax liability of the Division	58,065	–	(1,163)	56,902
Reclassification of Divisional equity to Unitholders' equity	(335,149)	335,149	–	–
Issuance of 15,000 REIT Units, Series A	–	306	–	306
Unitholders' equity – June 30, 2003	$ –	$ 335,455	$ (1,728)	$ 333,727

Commercial Real Estate Division

The Division is not a legal entity. It represents a combination of the portfolio of office, industrial and retail rental properties owned by DRC and 50% of the property management operations of DRC relating to rental properties, together with their related assets and liabilities, prior to the Transfer.

The combined financial statements of the Division present the financial position, results of operations and cash flows of the Division, had the Division been accounted for on a stand-alone basis, and include the Division's proportionate share of the assets, liabilities, revenues and expenses of joint ventures in which it participates.

The combined financial statements of the Division have been prepared in accordance with the accounting recommendations of the CICA. Management has extracted the information used to prepare these combined financial statements from the financial records of DRC and as such assets and liabilities have been measured using the historical carrying amounts of DRC. Divisional equity represents the excess of the Division's assets over the Division's liabilities.

All balances except for income tax, capital and large corporations taxes and general and administrative expenses have been derived from records specific to the properties and entities that were subject to the Transfer. Capital and large corporations taxes have been allocated to the Division based on the net book value of the properties acquired that are subject to such taxes relative to the total net book value of the properties of DRC that are subject to such taxes. Other income taxes have been determined based on the operation of, and taxable temporary differences related to the net assets of the Division, as if it were a taxable entity. General and administrative expenses have been allocated to the Division based on the net book value of the assets acquired relative to the total net book value of the assets of DRC.

The combined financial statements of the Division are not necessarily indicative of the results that would have been attained if the Division had been operated as a separate legal entity during the periods presented and therefore are not necessarily indicative of future operating results. No adjustments have been made to reflect possible incremental changes to the cost structure as a result of the Transfer.

The comparative figures for the Division for periods prior to and including June 30, 2003 have been reclassified to conform to the current period's financial statement presentation.

2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition

Properties are considered operational at the earlier of the achievement of a predetermined level of occupancy or at the expiry of a reasonable period following substantial completion. The Trust has retained substantially all of the benefits and risks of ownership of its rental properties and therefore accounts for leases as operating leases.

Revenues from rental properties include base rents, recoveries of operating expenses including property taxes, percentage participation rents, lease cancellation fees, parking income and incidental income. The total of the cash rents received for the initial term of the lease for free rent tenant inducements are recorded on a straight-line basis over this period. Leases, which include contractual increases in basic rents, are only accounted for on a straight-line basis when they exceed expected increases in the projected Consumer Price Index; otherwise basic rents are accounted for as they become due. Recoveries from tenants are recognized as revenues in the period in which the applicable costs are incurred. Percentage participation rents are recognized on an accrual basis once tenant sales revenues exceed contractual thresholds. The Trust provides an allowance for doubtful accounts against that portion of amounts receivable, which is estimated to be uncollectible. Such allowances are reviewed periodically based on the recovery experience of the Trust.

Rental Properties

Rental properties are stated at the lower of historic cost less accumulated depreciation and the net recoverable amount. Rental properties under development include interest on project-specific and general debt, property taxes, carrying charges and applicable general and administrative expenses incurred in the pre-development and construction periods, and initial leasing costs, less revenue earned prior to the project being declared operational. The net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the ongoing use of the property, combined with its estimated residual value, and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

Buildings, initial leasing costs and major expansions and renovations are depreciated using the sinking fund method. Under this method, an amount, which increases at 5% per annum, is charged to income so as to fully depreciate the buildings over their estimated useful lives of 30 to 40 years. Building improvements are depreciated on a straight-line basis over the life of the improvement. Pavement, vehicles, office premises improvements, furniture and computer equipment are depreciated on the declining balance basis over their estimated useful lives ranging from 8% to 30% per annum.

Deferred Costs

Deferred costs may include:

- Deferred leasing costs, which include leasing fees and costs, leasehold improvements and tenant inducements, other than initial leasing costs, and which are depreciated on a straight-line basis over the term of the applicable lease;
- Recoverable operating expenses, which are amortized over the period during which they are recoverable from tenants;
- Deferred financing costs, which include debt issue fees and expenses that are amortized on a straight-line basis over the term of the debt;
- Direct acquisition fees and costs, which exclude general and administrative costs, and which are deferred until the acquisition is completed and the costs are capitalized to the acquisition, or the acquisition is abandoned and the costs are written off; and
- Investigative and pre-development expenditures, which can include an allocation of general and administrative expenses incurred on specific potential projects. These costs are deferred until the project is either abandoned, at which time the costs are written off, or until the project proceeds to the construction stage, at which time the costs are capitalized to the project.

Foreign Currency Translation

The Trust's foreign operations are considered financially self-sustaining and operationally independent. Accordingly, assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the average rate for the period. Translation gains and losses are deferred as a separate component of equity until there has been a realized reduction in the underlying investment.

Foreign Currency Transactions

Monetary assets and liabilities to be settled in foreign currencies, which are not held in foreign self-sustaining operations, are translated into Canadian dollars using the period-end rate of exchange. Non-monetary assets, liabilities, revenues and expenses are translated at the rate in effect on the date of the transaction. Gains and losses are included in the statements of net income. No such gains or losses were recorded in either the six months ended December 31, 2003, the six months ended June 30, 2003, or the year ended December 31, 2002.

Income Taxes

Dundee REIT uses the liability method of accounting for future income taxes of its incorporated subsidiaries. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of these corporate subsidiaries' assets and liabilities and their carrying amounts for tax purposes. In addition, the benefit of tax losses available to be carried forward to future years for tax purposes, that are more likely than not to be realized, are recognized as a reduction of the income tax liability. Future income taxes are measured at the tax rates expected to apply in the future as temporary differences reverse and tax losses are utilized. Changes to future income taxes related to changes in tax rates are recognized in income in the period when the tax rate change is substantively enacted.

The Division uses the liability method of accounting for future income taxes. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of the Division's assets and liabilities and their carrying amounts for tax purposes. The provision for current income and large corporations taxes does not result in current taxes payable or receivable in the combined financial statements of the Division as such items are the obligation of, or the right of, legal entities not included in the Division. The benefits of tax losses are not reflected as a reduction of the future income tax liability recognized in the combined financial statements of the Division because they are the right of those legal entities not included in the Division. As such, current taxes payable or receivable and the benefit of losses, are included in Divisional equity as a component of the amount of funds transferred to or from DRC. Future income taxes are measured at the tax rates expected to apply in the future as temporary differences reverse. Changes to future income taxes related to changes in tax rates are recognized in income in the period when the tax rate change is substantively enacted.

Unit-based Compensation Plan

Dundee REIT has a Deferred Unit Incentive Plan as described in Note 10f. The Trust recognizes compensation expense on a straight-line basis over the period that deferred units vest, based on the market price of REIT units on the date of grant.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Trust considers all short-term investments with an original maturity of three months or less to be cash equivalents, and excludes cash subject to restrictions that prevent its use for current purposes.

3. Rental Properties

	Dundee REIT Consolidated		Division of DRC Combined	
	December 31, 2003	June 30, 2003	June 30, 2003	December 31, 2002
Land	$ 159,940	$ 139,548	$ 139,548	$ 143,198
Buildings and building improvements	788,746	700,778	700,778	704,363
Equipment	5,724	5,658	5,658	5,498
	954,410	845,984	845,984	853,059
Accumulated depreciation	(39,360)	(34,645)	(34,645)	(30,644)
Total	$ 915,050	$ 811,339	$ 811,339	$ 822,415

During the six months ended December 31, 2003, non-cash changes in working capital items related to investment in rental properties amounted to $(327) (six months ended June 30, 2003 - $1,587; year ended December 31, 2002 - $4,343).

On November 27, 2003, the Trust completed the purchase of the Palladium Office Campus for a purchase price of $37,000. On December 3, 2003, the Trust completed the purchase of a 50% interest in Telus Tower for a purchase price of $68,000. Existing first mortgages were assumed having an aggregate principal amount of $31,000 and $44,000, respectively.

4. Deferred Costs

	Dundee REIT Consolidated		Division of DRC Combined	
	December 31, 2003	June 30, 2003	June 30, 2003	December 31, 2002
Deferred leasing costs	$ 25,605	$ 21,817	$ 21,817	$ 20,657
Deferred recoverable costs	9,431	9,061	9,061	7,250
Deferred financing costs	2,010	2,358	2,358	2,219
Other deferred costs	1,131	1,566	1,566	1,599
Total	$ 38,177	$ 34,802	$ 34,802	$ 31,725

Deferred leasing costs are net of accumulated amortization of $12,153 at December 31, 2003 (June 30, 2003 - $11,207; December 31, 2002 - $13,220).

5. Amounts Receivable

Amounts receivable and deposits are net of credit adjustments of $1,546 at December 31, 2003 (June 30, 2003 - $2,954; December 31, 2002 - $2,780). Total U.S. dollar denominated amounts receivable and other assets relating to self-sustaining foreign operations are US$995 as at December 31, 2003 (June 30, 2003 - US$593; December 31, 2002 - US$1,001).

6. Prepaid Expenses and Other Assets

	Dundee REIT Consolidated		Division of DRC Combined	
	December 31, 2003	June 30, 2003	June 30, 2003	December 31, 2002
Prepaid expenses	$ 5,711	$ 6,516	$ 6,516	$ 3,845
Deposits	14,315	16	16	14
Restricted cash	12,680	3,099	3,099	2,993
Total	$ 32,706	$ 9,631	$ 9,631	$ 6,852

Deposits include a $14,300 payment with respect to an agreement to acquire certain rental properties, as described in Note 19. Restricted cash represents primarily tenant rent deposits and cash held as security for certain mortgages and bank loans drawn on a line of credit.

7. Debt

	Dundee REIT Consolidated		Division of DRC Combined	
	December 31, 2003	June 30, 2003	June 30, 2003	December 31, 2002
Mortgages	**$ 483,667**	$ 420,468	$ 420,468	$ 417,437
Term debt	**85,180**	85,124	85,124	86,722
Demand revolving credit facility	**7,026**	–	–	–
Demand non-revolving credit facility	**6,619**	–	–	–
Total	**$ 582,492**	$ 505,592	$ 505,592	$ 504,159

Mortgages and term debt are secured by charges on specific rental properties. DRC continues to be contingently liable for certain debt obligations of Dundee REIT.

A demand revolving credit facility is available to a formula-based maximum of $20,000, bearing interest generally at the bank prime rate (4.5% as at December 31, 2003) plus 1% or bankers' acceptance rates. The facility is secured by a first ranking collateral mortgage on two of the Trust's properties and a second ranking collateral mortgage on a third property. As at December 31, 2003, $7,026 was drawn on the facility and an additional $2,925 (June 30, 2003 - $2,925) was utilized under the facility in the form of letters of guarantee. As at December 31, 2003, the amount still available on this facility was $5,688.

A demand non-revolving credit facility in the amount of $6,619 (US$4,971) at December 31, 2003 was drawn to repay a U.S. dollar mortgage. The demand non-revolving credit facility was secured by a Canadian dollar deposit. The facility bears interest at the bank's U.S. base rate plus 0.25%, and is due on demand, but no later than May 31, 2004.

The weighted average interest rates for the fixed and floating components of debt are as follows:

	Weighted Average Interest Rates				Debt Amount		
	December 31, 2003	June 30, 2003	December 31, 2002	Maturity Dates	**December 31, 2003**	June 30, 2003	December 31, 2002
Fixed rate							
Mortgages	**6.93%**	7.16%	7.28%	2004 to 2013	**$ 483,667**	$ 420,468	$ 417,437
Term debt	**7.70%**	7.70%	7.71%	2004 to 2006	**65,886**	65,570	62,357
Total fixed rate	**7.02%**	7.23%	7.33%		**549,553**	486,038	479,794
Variable rate							
Term debt	**5.51%**	6.04%	5.53%	2004	**19,294**	19,554	24,365
Demand revolving credit facility	**5.50%**	–	–	2004	**7,026**	–	–
Demand non-revolving credit facility	**4.75%**	–	–	2004	**6,619**	–	–
Total variable rate	**5.35%**	6.04%	5.53%		**32,939**	19,554	24,365
Total debt	**6.93%**	7.19%	7.24%		**$ 582,492**	$ 505,592	$ 504,159

Total variable rate term debt outstanding at December 31, 2003 bears interest generally at the rate of bankers' acceptance plus 2.75% (June 30, 2003 - plus 2.75%; December 31, 2002 - plus 2.75%). At December 31, 2003, the rate of bankers' acceptance was 2.76%.

The scheduled principal repayments and debt maturities are as follows:

	Mortgages	Term Debt	Demand Revolving Credit Facility	Demand Non-Revolving Credit Facility	Total
Year ending December 31, 2004	$ 59,285	$ 84,899	$ 7,026	$ 6,619	$ 157,829
2005	22,956	179	–	–	23,135
2006	51,171	102	–	–	51,273
2007	48,122	–	–	–	48,122
2008	85,919	–	–	–	85,919
2009 and thereafter	216,214	–	–	–	216,214
Total	$ 483,667	$ 85,180	$ 7,026	$ 6,619	$ 582,492

The estimated fair value of debt is as follows:

	December 31, 2003	June 30, 2003	December 31, 2002
Mortgages	**$ 501,173**	$ 440,412	$ 433,521
Term debt	**85,894**	86,313	88,816
Demand revolving credit facility	**7,026**	–	–
Demand non-revolving credit facility	**6,619**	–	–
Total	**$ 600,712**	$ 526,725	$ 522,337

Mortgages include US$20,617 at December 31, 2003 (June 30, 2003 - US$25,617; December 31, 2002 - US$26,135) of debt secured by assets located in the United States relating to self-sustaining foreign operations.

8. Amounts Payable and Accrued Liabilities

	Dundee REIT Consolidated		Division of DRC Combined	
	December 31, 2003	June 30, 2003	June 30, 2003	December 31, 2002
Trade payables	**$ 1,450**	$ 1,681	$ 1,681	$ 2,959
Accrued liabilities and other payables	**10,682**	9,802	9,802	6,605
Deposits	**3,565**	3,526	3,526	3,396
Deferred revenue	**1,696**	1,182	1,182	1,660
Total	**$ 17,393**	$ 16,191	$ 16,191	$ 14,620

Total U.S. dollar denominated amounts payable and accrued liabilities relating to self-sustaining foreign operations are US$975 at December 31, 2003 (June 30, 2003 - US$556; December 31, 2002 - US$606).

9. Distributions

The following table sets out Dundee REIT's distributions for the six months ended December 31, 2003.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	$ 7,952	$ –	$ 7,952
Paid by way of reinvestment in units	1,190	6,640	7,830
Payable at December 31, 2003	2,228	1,372	3,600
Total	$ 11,370	$ 8,012	$ 19,382

The amount payable at December 31, 2003 was satisfied on January 15, 2004 by way of $1,853 in cash and $1,747 by way of 15,210 REIT Units, Series A and 55,655 LP Class B Units, Series 1.

Included in the total distributions is the 4% additional distribution that forms part of the distribution reinvestment plan in the amount of $253.

10. Unitholders' Equity

Dundee REIT was originally established on May 9, 2003 when one initial REIT unit was issued for ten dollars. As part of completing the Arrangement, this unit was redeemed.

Immediately prior to completion of the Arrangement, there were 16,264,437 common shares of DRC issued and outstanding. As a result of the Transfer and completion of the Arrangement as described in Note 1, certain public shareholders of DRC who formerly held 9,355,192 common shares of DRC received 9,355,192 REIT Units, Series A and DRC received, directly and indirectly, 6,909,245 LP Class B Units, Series 1. In addition, 15,000 REIT Units, Series A were issued to DRC in exchange for a demand promissory note of $306. Divisional equity at June 30, 2003, excluding the cumulative foreign currency translation adjustment of $(1,728), was allocated between these REIT Units, Series A and LP Class B Units, Series 1 on a pro rata basis with resulting book values of $192,775 and $142,374, respectively. Included in Divisional equity at June 30, 2003 was a cumulative foreign currency translation adjustment of $(565) (December 31, 2002 - $1,906).

	REIT Units, Series A		LP Class B Units, Series 1		Cumulative Foreign Currency Translation Adjustment	Total	
	Number of Units	Amount	Number of Units	Amount		Number of Units	Amount
Unitholders' equity, June 30, 2003	9,370,192	$ 193,081	6,909,245	$ 142,374	$ (1,728)	16,279,437	$ 333,727
Net income	–	7,182	–	4,991	–	–	12,173
Distributions paid	–	(9,142)	–	(6,640)	–	–	(15,782)
Distributions payable	–	(2,228)	–	(1,372)	–	–	(3,600)
Public Offering of Units	2,600,000	56,420	–	–	–	2,600,000	56,420
Distribution Reinvestment Plan	53,661	1,190	302,186	6,640	–	355,847	7,830
Unit Purchase Plan	70,364	1,536	–	–	–	70,364	1,536
Deferred Unit Incentive Plan	–	113	–	–	–	–	113
Issue costs	–	(5,193)	–	–	–	–	(5,193)
Change in foreign currency translation adjustment	–	–	–	–	(1,269)	–	(1,269)
Unitholders' equity, December 31, 2003	12,094,217	$ 242,959	7,211,431	$ 145,993	$ (2,997)	19,305,648	$ 385,955

a) Dundee REIT Units

Dundee REIT is authorized to issue an unlimited number of REIT Units and an unlimited number of Special REIT Units. The REIT Units were initially divided into and issued in two series: REIT Units, Series A and REIT Units, Series B. REIT Units are redeemable at the option of the holder, generally at any time subject to certain restrictions, at a redemption price per REIT Unit equal to the lesser of 90% of a 20-day weighted average market price prior to the redemption date and 100% of the market price on the redemption date. The total amount payable by Dundee REIT in any calendar month shall not exceed $50 unless waived by Dundee REIT's trustees at their sole discretion. Any dollar amount in excess of this monthly dollar maximum, unless waived, will be paid by notes of OTA or OTB.

REIT Units, Series A and REIT Units, Series B represent an undivided beneficial interest in Dundee REIT and in distributions made by Dundee REIT. No REIT Unit, Series A or REIT Unit, Series B has preference or priority over any other. Each REIT Unit, Series A and REIT Unit, Series B entitles the holder to one vote held at all meetings of unitholders.

Special REIT Units are issued in conjunction with LP Class B Units, Series 1 of DPLP. The Special REIT Units are not transferable separately from the LP Class B Units, Series 1 to which they relate and will be automatically redeemed for a nominal amount and cancelled upon surrender or exchange of such LP Class B Units, Series 1. Each Special REIT Unit entitles the holder to the number of votes at any meeting of unitholders that is equal to the number of REIT Units, Series B, which may be obtained upon the surrender or exchange of the LP Class B Units, Series 1 to which they relate. At December 31, 2003, 7,211,431 Special REIT Units are issued and outstanding (June 30, 2003 - 6,909,245 issued and outstanding). These Special REIT Units are recorded at nominal value.

Dundee REIT's Declaration of Trust provides Dundee Bancorp Inc. ("DBI") with a pre-emptive right pursuant to which Dundee REIT will not issue any REIT Units, or any securities convertible into REIT Units, to any person without first making an offer to DBI to issue that number of REIT Units or securities or a comparable number of LP Class B Units, Series 1 necessary to maintain the percentage of the outstanding voting interest in Dundee REIT held by DBI and its affiliates at the date of offer. After completion of the Plan of Arrangement, DBI indirectly controls DRC.

b) DPLP Units

DPLP is authorized to issue two initial units, an unlimited number of LP Class A and an unlimited number of LP Class B limited partnership units and such other classes as the general partner of DPLP, a wholly owned subsidiary of Dundee REIT, may decide. The LP Class B Units have been issued in two series: LP Class B Units, Series 1 and LP Class B Units, Series 2.

The LP Class B Units, Series 1, together with the accompanying Special REIT Units, have economic and voting rights equivalent in all material respects to the REIT Units, Series A and REIT Units, Series B. Generally, each LP Class B Unit, Series 1 entitles the holder to a distribution equal to distributions declared on REIT Units, Series B or, if no such distribution is declared, on REIT Units, Series A. LP Class B Units, Series 1 may be surrendered or indirectly exchanged on a one-for-one basis at the option of the holder, generally at any time subject to certain restrictions, for REIT Units, Series B. The LP Class B Units, Series 1 are not entitled to vote at any meeting of the limited partners of DPLP.

The LP Class A Units and LP Class B Units, Series 2 are entitled to vote at meetings of the limited partners of DPLP and each unit entitles the holder to a distribution equal to distributions on the LP Class B Units, Series 1.

At December 31, 2003, 12,094,217 LP Class A Units (June 30, 2003 - 9,370,192), 7,211,431 LP Class B Units, Series 1 (June 30, 2003 - 6,909,245) and one LP Class B Unit, Series 2 (June 30, 2003 - one) are issued and outstanding. As at December 31, 2003 and June 30, 2003, all issued and outstanding LP Class A Units and the outstanding LP Class B Unit, Series 2 of DPLP were owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

c) Public Offering of Units

On November 5, 2003, Dundee REIT completed a public offering for gross cash proceeds of $56,420 through the issuance of 2.6 million REIT Units, Series A at a price of $21.70 per unit. Costs relating to the offering totalled $5,193 and were charged directly to Unitholders' equity of which $1,350 was included in amounts payable and accrued liabilities at December 31, 2003.

d) Distribution Reinvestment Plan

In August 2003, Dundee REIT established a Distribution Reinvestment and Unit Purchase Plan for holders of REIT Units, Series A and REIT Units, Series B.

The Distribution Reinvestment Plan allows unitholders, other than unitholders who are resident of or present in the United States, to elect to have all cash distributions from Dundee REIT reinvested in additional REIT Units, Series A. Unitholders, who so elect, receive an additional distribution of REIT Units, Series A equal to 4% of each cash distribution that was reinvested. A similar distribution reinvestment arrangement exists for holders of LP Class B Units, Series 1. As at and for the six months ended December 31, 2003, 53,661 REIT Units, Series A and 302,186 LP Class B Units, Series 1 were issued under the Distribution Reinvestment Plan for $1,190 and $6,640, respectively. The price per unit is calculated by reference to a five-day weighted average closing price of the units on the TSX preceding the relevant distribution date, which typically is on or about the 15th day of the month following the declaration.

e) Unit Purchase Plan

The Unit Purchase Plan allows existing unitholders to purchase additional REIT Units, Series A of Dundee REIT. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT Units, Series A that may be acquired. The price per unit is calculated in a similar manner to the Distribution Reinvestment Plan. No commission, service charges or brokerage fees are payable by participants in connection with either the Distribution Reinvestment Plan or Unit Purchase Plan.

For the six months ended December 31, 2003, 70,364 REIT Units, Series A were issued under the Unit Purchase Plan for $1,536.

f) Deferred Unit Incentive Plan

The Deferred Unit Incentive Plan provides for the grant of deferred trust units and income deferred trust units to trustees, officers and employees, and affiliates and their service providers. Deferred trust units are granted at the discretion of the trustees while income deferred trust units are granted to deferred trust unit holders based on distributions paid on the REIT Units, Series A. Once vested, each deferred trust unit and income deferred trust unit will entitle the holder to receive a REIT Unit, Series A at no cost. Deferred trust units vest evenly over three to five years on the anniversary date of the grant while income deferred trust units vest on the same date as the associated deferred trust unit. Subject to an election for certain participants to postpone receipt of REIT Units, Series A, such units will be issued immediately after vesting. Up to a maximum of 500,000 deferred trust units and income deferred trust units are issuable under the Deferred Unit Incentive Plan. Compensation expense is recorded based on the fair market value at the date of grant amortized as earned over the vesting period. At December 31, 2003, 88,200 deferred trust units (June 30, 2003 - nil) had been granted with a grant-date value of $21.35 per unit. During the six months ended December 31, 2003, $113 of compensation expense was recorded and is included in general and administrative expenses. During the six months ended December 31, 2003, 2,812 income deferred trust units were granted. As no deferred trust units have vested, no REIT Units, Series A have been issued to date under the plan.

11. Joint Ventures and Co-ownerships

The Trust participates in incorporated and unincorporated joint ventures, partnerships and co-ownerships (the "joint ventures") with other parties and accounts for its interests using the proportionate consolidation method.

The following amounts represent the total assets and liabilities of rental property joint ventures in which the Trust participates and its proportionate share of the assets, liabilities, revenues, expenses and cash flows therein.

	Dundee REIT Consolidated		Division of DRC Combined	
Total	**December 31, 2003**	June 30, 2003	June 30, 2003	December 31, 2002
Assets	**$ 352,369**	$ 203,145	$ 203,145	$ 206,733
Liabilities	**200,565**	103,011	103,011	106,447

Proportionate Share	Dundee REIT Consolidated December 31, 2003	Dundee REIT Consolidated June 30, 2003	Division of DRC Combined June 30, 2003	Division of DRC Combined December 31, 2002
Assets	$ 186,908	$ 112,956	$ 112,956	$ 114,771
Liabilities	104,559	55,995	55,995	57,767

	2003		2002
	Dundee REIT Consolidated	Division of DRC Combined	Division of DRC Combined
Proportionate Share	July 1 to December 31	January 1 to June 30	For the Year Ended December 31
Revenues	$ 12,439	$ 12,247	$ 23,126
Expenses	9,388	9,465	17,499
	$ 3,051	$ 2,782	$ 5,627

	2003		2002
	Dundee REIT Consolidated	Division of DRC Combined	Division of DRC Combined
Proportionate Share	July 1 to December 31	January 1 to June 30	For the Year Ended December 31
Cash flow generated from (utilized in):			
Operating activities	$ 5,315	$ 2,806	$ 8,449
Financing activities	(878)	(3,491)	(5,972)
Investing activities	(2,809)	(884)	(1,301)
Increase (decrease) in cash and cash equivalents	$ 1,628	$ (1,569)	$ 1,176

The Trust is contingently liable for the obligations of the other owners of the unincorporated joint ventures in the aggregate amount of $84,960 at December 31, 2003 (June 30, 2003 - $41,340). In each case, however, the co-owner's share of assets is available to satisfy these obligations.

At December 31, 2003, Dundee REIT's proportionate share of the assets and liabilities of DMLP are as follows:

	December 31, 2003	June 30, 2003
Assets		
Amounts receivable and other assets	$ 2,675	$ 2,210
Liabilities		
Debt	$ 461	$ 570
Amounts payable and accrued liabilities	739	500
	$ 1,200	$ 1,070

12. Interest

Interest incurred, capitalized and charged to earnings is recorded as follows:

	2003		2002
	Dundee REIT Consolidated	Division of DRC Combined	Division of DRC Combined
	July 1 to December 31	January 1 to June 30	For the Year Ended December 31
Interest expense incurred, at stated rate of debt	$ 18,421	$ 17,965	$ 35,339
Amortization of deferred financing costs	618	465	772
Marked-to-market adjustment to rate	(181)	(155)	(333)
Interest capitalized	–	–	(176)
Interest expense	$ 18,858	$ 18,275	$ 35,602

Certain debt assumed on acquisitions completed in prior years has been adjusted to fair value using the market interest rate at the time of the acquisition ("marked-to-market"). This marked-to-market adjustment is amortized to interest expense and principal repayments over the remaining life of the debt. Interest capitalized in 2002 included interest on general and specific debt on rental properties under development.

Cash interest paid in the six months ended December 31, 2003 is $15,099 (six months ended June 30, 2003 - $20,929; year ended December 31, 2002 - $35,080).

13. Income and Large Corporations Taxes

Dundee REIT

Dundee REIT is taxed as a mutual fund trust for income tax purposes. Pursuant to the Declaration of Trust, the Trustees of Dundee REIT will make distributions of, or will designate, all taxable income earned by Dundee REIT, including the taxable portion of net realized capital gains, to unitholders and will deduct such distributions and designations for income tax purposes. As the income tax obligations relating to the distributions are those of the unitholders, no provision for income taxes is required on such amounts.

Canadian and United States based corporate subsidiaries are subject to tax on their respective taxable income at their corresponding legislated rates. A future income tax liability of $7,737 as at December 31, 2003 (June 30, 2003 - $8,000) has been recorded to reflect the future tax obligations of these subsidiaries and comprises amounts resulting from the differences in tax and book values relating to the rental properties.

The reported carrying amount of Dundee REIT's net assets, excluding those in corporate subsidiaries, exceeds the corresponding tax cost by approximately $214,000 at December 31, 2003 (June 30, 2003 - $200,000).

Commercial Real Estate Division

	Division of DRC Combined	Division of DRC Combined
	January 1 to June 30, 2003	For the Year Ended December 31, 2002
Income tax provision based on Canadian statutory tax rate of 35.5% (six months ended June 30, 2003 - 38.3%; year ended December 31, 2002 - 38.3%)	$ 2,752	$ 7,764
Increase (decrease) in provision resulting from:		
Large corporations and corporate minimum taxes	1,134	2,104
Benefit from decrease in expected future income tax rates	(275)	(2,567)
Other items	29	87
Total income tax provision	$ 3,640	$ 7,388

The provision for current income and large corporations taxes comprises the following:

	Division of DRC Combined	Division of DRC Combined
	January 1 to June 30, 2003	For the Year Ended December 31, 2002
Current income taxes related to operations	$ 831	$ 1,208
Large corporations and corporate minimum taxes	1,134	2,104
	$ 1,965	$ 3,312

No cash taxes were paid or received by the Division because the payment is the obligation of, and the receipt is the right of, legal entities not included in the Division. During the periods presented, DRC did not pay any current income taxes because of the availability of tax losses and deductions not related to, and therefore not allocated to, the Division, nor were any current income taxes received as a result of the utilization of losses generated by the Division against taxable income not attributable to the Division.

With respect to the Division, the future income tax liability of $64,902 at June 30, 2003 (December 31, 2002 - $59,838) comprises amounts resulting entirely from the differences in tax and book values relating to the rental properties. For the period ended June 30, 2003, the future income tax liability was increased by $4,500 due to differences between the provision for current income taxes and the actual tax filings, with a corresponding amount included in funds transferred to DRC.

14. Net Income Per Unit

For the six months ended December 31, 2003, the weighted average number of units outstanding was as follows:

	Units Outstanding
REIT Units, Series A	10,229,815
LP Class B Units, Series 1	7,037,422
Total weighted average number of units outstanding	17,267,237

For the six months ended December 31, 2003, deferred trust units and income deferred trust units resulted in approximately 7,138 and 2,182 incremental units for diluted per unit amount calculations, respectively.

15. Segmented Information

The Trust's rental properties have been segmented into office, industrial and retail components because of the marketing, leasing and operating strategies unique to each.

The accounting policies of the segments are as described in the summary of significant accounting policies. The Trust does not allocate interest expense to these segments, since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, income taxes, and general and administrative expenses are not allocated to the segment expenses. All inter-segment revenues have been eliminated from the financial statements and the following tables.

A. By Activity

Dundee REIT

For the Six Months Ended December 31, 2003	Office	Industrial	Retail	Total
Operations				
Revenues	$ 46,009	$ 20,425	$ 11,728	$ 78,162
Operating expenses	(23,670)	(7,676)	(6,030)	(37,376)
Net operating income	22,339	12,749	5,698	40,786
Depreciation of rental properties	(2,547)	(1,506)	(801)	(4,854)
Amortization of deferred leasing costs	(1,678)	(886)	(531)	(3,095)
Segment income	$ 18,114	$ 10,357	$ 4,366	32,837
Interest expense				(18,858)
General and administrative expenses				(2,109)
Interest and fee income, net				674
Loss on disposal of land				(289)
Income taxes				(82)
Net income				$ 12,173
Segment rental properties	$ 525,360	$ 252,521	$ 137,169	$ 915,050
Capital expenditures				
Investment in rental properties	$ (1,411)	$ (740)	$ (705)	$ (2,856)
Acquisition of rental properties	(32,991)	–	–	(32,991)
Deferred leasing costs	(3,675)	(1,305)	(470)	(5,450)
Total capital expenditures	$ (38,077)	$ (2,045)	$ (1,175)	$ (41,297)

Division of DRC For the Six Months Ended June 30, 2003	Office	Industrial	Retail	Total
Operations				
Revenues	$ 42,965	$ 19,760	$ 11,815	$ 74,540
Operating expenses	(23,874)	(8,260)	(6,359)	(38,493)
Net operating income	19,091	11,500	5,456	36,047
Depreciation of rental properties	(2,433)	(1,262)	(744)	(4,439)
Amortization of deferred leasing costs	(1,533)	(777)	(587)	(2,897)
Segment income	$ 15,125	$ 9,461	$ 4,125	28,711
Interest expense				(18,275)
General and administrative expenses				(3,339)
Interest and fee income, net				656
Loss on disposal of land				–
Income taxes				(3,640)
Net income				$ 4,113
Segment rental properties	$ 417,222	$ 253,456	$ 140,661	$ 811,339
Capital expenditures				
Investment in rental properties	$ (2,086)	$ (1,688)	$ (535)	$ (4,309)
Acquisition of rental properties	–	(3)	(858)	(861)
Deferred leasing costs	(1,314)	(946)	(661)	(2,921)
Total capital expenditures	$ (3,400)	$ (2,637)	$ (2,054)	$ (8,091)

Division of DRC For the Year Ended December 31, 2002	Office	Industrial	Retail	Total
Operations				
Revenues	$ 83,878	$ 38,566	$ 24,238	$ 146,682
Operating expenses	(45,168)	(15,337)	(13,103)	(73,608)
Net operating income	38,710	23,229	11,135	73,074
Depreciation of rental properties	(4,098)	(2,606)	(1,607)	(8,311)
Amortization of deferred leasing costs	(2,633)	(1,275)	(793)	(4,701)
Segment income	$ 31,979	$ 19,348	$ 8,735	60,062
Interest expense				(35,602)
General and administrative expenses				(5,613)
Interest and fee income, net				1,424
Loss on disposal of land				–
Income taxes				(7,388)
Net income				$ 12,883
Segment rental properties	$ 417,829	$ 254,504	$ 150,082	$ 822,415
Capital expenditures				
Investment in rental properties	$ (10,888)	$ (1,918)	$ (1,843)	$ (14,649)
Acquisition of rental properties	(24)	(686)	(205)	(915)
Deferred leasing costs	(3,326)	(1,814)	(5,221)	(10,361)
Total capital expenditures	$ (14,238)	$ (4,418)	$ (7,269)	$ (25,925)

B. By Country

Dundee REIT **For the Six Months Ended December 31, 2003**	**Canada**	**U.S.**	**Total**
Operations			
Revenues	$ 72,805	$ 5,357	$ 78,162
Operating expenses	(34,490)	(2,886)	(37,376)
Net operating income	38,315	2,471	40,786
Depreciation of rental properties	(4,453)	(401)	(4,854)
Amortization of deferred leasing costs	(2,981)	(114)	(3,095)
Segment income	$ 30,881	$ 1,956	$ 32,837
Segment rental properties	$ 857,628	$ 57,422	$ 915,050
Capital expenditures			
Investment in rental properties	$ (2,397)	$ (459)	$ (2,856)
Acquisition of rental properties	(32,991)	–	(32,991)
Deferred leasing costs	(5,317)	(133)	(5,450)
Total capital expenditures	$ (40,705)	$ (592)	$ (41,297)

Division of DRC For the Six Months Ended June 30, 2003	Canada	U.S.	Total
Operations			
Revenues	$ 69,115	$ 5,425	$ 74,540
Operating expenses	(35,481)	(3,012)	(38,493)
Net operating income	33,634	2,413	36,047
Depreciation of rental properties	(4,055)	(384)	(4,439)
Amortization of deferred leasing costs	(2,792)	(105)	(2,897)
Segment income	$ 26,787	$ 1,924	$ 28,711
Segment rental properties	$ 751,221	$ 60,118	$ 811,339
Capital expenditures			
Investment in rental properties	$ (3,987)	$ (322)	$ (4,309)
Acquisition of rental property	(861)	–	(861)
Deferred leasing costs	(2,751)	(170)	(2,921)
Total capital expenditures	$ (7,599)	$ (492)	$ (8,091)

Division of DRC For the Year Ended December 31, 2002	Canada	U.S.	Total
Operations			
Revenues	$ 134,511	$ 12,171	$ 146,682
Operating expenses	(67,385)	(6,223)	(73,608)
Net operating income	67,126	5,948	73,074
Depreciation of rental properties	(7,471)	(840)	(8,311)
Amortization of deferred leasing costs	(4,491)	(210)	(4,701)
Segment income	$ 55,164	$ 4,898	$ 60,062
Segment rental properties	$ 752,311	$ 70,104	$ 822,415
Capital expenditures			
Investment in rental properties	$ (14,172)	$ (477)	$ (14,649)
Acquisition of rental properties	(915)	–	(915)
Deferred leasing costs	(9,827)	(534)	(10,361)
Total capital expenditures	$ (24,914)	$ (1,011)	$ (25,925)

16. Other Related Party Transactions and Arrangements

From time to time Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Prior to June 30, 2003, transactions entered into by the Division were not significant to these financial statements. At December 31, 2003 and June 30, 2003, Dundee REIT, DPLP and DMLP were parties to the following arrangements:

Master Property Management Agreement

DPLP has entered into a property management agreement ("Management Agreement") with DMLP to provide customary property management services to DPLP. The Management Agreement also authorizes DMLP, subject to certain restrictions, to contract on behalf of DPLP with third parties for the provision of certain services as provided for in DMLP's annual operating plan. DMLP is entitled to be reimbursed by DPLP for its reasonable costs for such services. The Management Agreement provides for a base management fee of 3.5% of gross revenues generated from the managed properties, as well as construction fees, and leasing administration fees for services provided. The initial term of the Management Agreement is five years. With the consent of DMLP, the Management Agreement will be automatically extended for a further five-year period. Upon expiry of the first extension term and with the mutual consent of DMLP and DPLP, the Management Agreement will be automatically extended for further five-year periods until terminated by the parties.

This Management Agreement also provides that DRC will pay a rent supplement to DPLP for a five-year period in the case of certain specified office and retail premises and a three-year period in the case of certain specified industrial premises. DRC will pay an amount equal to the difference between: (i) the amount that is the "total net rent" less amortized leasing costs with respect to the specified premises plus the additional rents that would be payable with respect to such premises if such premises were leased pursuant to the applicable standard lease for each premises, and (ii) the amount that is the actual base rent and additional rent received by DPLP for such premises, after deduction for amortization of leasing costs including, but not limited to, tenant inducements, landlord's work, free rent and leasing commissions paid by DPLP to lease any such premises.

If at any time, any of the premises to which the rent supplement applies are either sold by DPLP or cease to be managed by DMLP, the amount of the rent supplement will be reduced by the amount attributed to such premises. If DPLP enters into a lease with a tenant for any of the premises to which the rent supplement applies, which extends beyond the terms of the supplement for such premises and the tenant meets credit quality thresholds, has occupied the premises and has commenced full rental payment under the lease, the amount of the supplement will be permanently reduced by the actual base rent and additional rent received by DPLP for such premises after deduction for amortization of leasing costs.

Administrative Services Agreement

Dundee REIT and certain subsidiaries have entered into an administrative services agreement ("Services Agreement") with DMLP whereby DMLP will provide certain administrative services to Dundee REIT and its subsidiaries. The Services Agreement provides for a broad range of management and general administrative services, certain asset management services and certain administrative and support services. The agreement provides for a fee sufficient to reimburse DMLP for the actual costs incurred and is not intended to have a profit component. In addition, DMLP will provide, for a fee, services related to property acquisition, property financing or refinancing and equity financing. This agreement is for an initial five-year period commencing July 1, 2003 and will terminate on termination of the Management Agreement. DMLP has also entered into a similar administration and support services agreement with DRC to provide certain administration services to DRC and its subsidiaries ("DRC Services Agreement").

For the six months ended December 31, 2003, the portion of fees received from or paid to related parties under the above arrangements were as follows:

Fees Received		
Rent supplement (included in rental properties revenue)	$	2,180
Fees received by Dundee REIT under the DRC Services Agreement		
Services fees, netted against rental properties operating expenses	$	225

Fees Paid		
Fees paid by Dundee REIT under the Management Agreement		
Management fees, included in rental properties operating expenses	$	1,338
Construction fees, capitalized to the related assets	$	342
Lease administration fees, included in deferred leasing costs	$	370
Fees paid by Dundee REIT under the Services Agreement		
Acquisition and financing fees, capitalized to the related assets	$	218

Included in amounts receivable at December 31, 2003 is $177 relating to the above agreements and $181, which resulted from a certain cash deficit balance transferred on June 30, 2003, which was subsequently repaid on January 6, 2004. Amounts receivable at June 30, 2003 included a demand promissory note from DRC for $306 issued in exchange for 15,000 REIT Units, Series A. The demand promissory note was interest bearing at 5.05% and was repaid on August 29, 2003.

Included in accrued liabilities and other payables at December 31, 2003 is $444 relating to the above agreements. At June 30, 2003, there was a non-interest bearing note payable to DRC in the amount of $1,760. This obligation was the result of certain cash balances included as part of the Transfer on June 30, 2003 and was repaid on November 6, 2003.

Substantially all of Dundee REIT's services are to be provided by DMLP and accordingly, Dundee REIT relies on DMLP to continue to provide such services.

17. Financial Instruments and Risk Management

For certain of the Trust's financial instruments, including cash and short-term deposits, amounts receivable, amounts payable and accrued liabilities, and distributions payable, carrying amounts approximate fair values due to their immediate or short-term maturity.

The fair value of debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates that represent management's best estimate of borrowing rates presently available to the Trust for loans with similar terms and maturities. Specific fair values are disclosed in the related notes.

The Trust has exposure to interest rate risk primarily as a result of its variable rate debt. Variable rate debt amounts to 5.66% at December 31, 2003 (June 30, 2003 - 3.87%; December 31, 2002 - 4.83%) of the Trust's total debt. In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and floating rate debt, stagger maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The Trust is exposed to foreign exchange risk as it relates to its self-sustaining U.S. operations due to fluctuations in the exchange rate between the Canadian and U.S. dollars. Changes in the exchange rate may result in a reduction or an increase in net income. The impact of foreign exchange fluctuations is deferred as a separate component of equity until an investment has been liquidated. The Trust mitigates this risk by matching foreign denominated debt with foreign assets.

The Trust's assets consist of office, industrial and retail rental properties. Credit risk arises from the possibility that tenants in rental properties may not fulfill their lease or contractual obligations. Further risks arise in the event that borrowers default on the repayment of their loans to the Trust. The Trust mitigates its credit risks by attracting tenants of sound financial standing, diversifying its mix of tenants and ensuring that adequate security has been provided in support of loans.

18. Commitments and Contingencies

Dundee REIT and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the financial statements of Dundee REIT.

Dundee REIT's future minimum commitments under operating and capital leases are as follows:

	Operating Lease Payments	Capital Lease Payments
Year ending December 31, 2004	$ 767	$ 209
2005	731	196
2006	651	105
2007	651	–
2008	541	–
2009 and thereafter	1,591	–
Total	$ 4,932	$ 510

Dundee REIT's future minimum commitments under ground leases are as follows:

	Ground Lease Payments
Year ending December 31, 2004	$ 1,011
2005	1,081
2006	1,142
2007	1,112
2008	1,112
2009 and thereafter	2,862
Total	$ 8,320

Dundee REIT has four ground leases on three properties. The terms of the first two leases extend to 2083 and 2076; the last two extend to 2060, including renewals. They are at fixed rates for the entire term with respect to the first and third leases, until September 30, 2006 for the second lease and until June 30, 2010 for the fourth. The renewal terms for the second and fourth leases beyond these dates are defined as variable percentages of the market value of these properties at the date of the renewal, and as such, no dollar amounts are shown in the table above.

19. Subsequent Events

On December 19, 2003, Dundee REIT entered into an agreement to acquire 1.6 million square feet of newly constructed office, industrial and flex space in the Calgary and Toronto markets (collectively, the "Pauls Portfolio") for a purchase price of $155,000 and a $12,500 mezzanine loan, net of the assumption of debt of approximately $65,700 at an average interest rate of 6.2%. As at December 31, 2003, Dundee REIT had made a deposit of $14,300 relating to this agreement. The transaction is scheduled to close by the end of February.

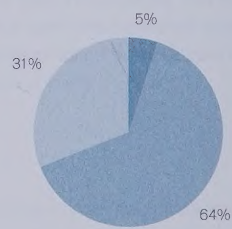
On February 19, 2004, Dundee REIT raised gross proceeds of $110,022 (net proceeds of $104,321 after deduction of the underwriters' fee and the estimated expenses of the offering) pursuant to a public offering through the issuance of 4,537,000 REIT Units, Series A at a price of $24.25 per unit.

TRUSTEES AND OFFICERS

REIT Ownership
as at March 15, 2004

- Management and Trustees
- Public
- Dundee Bancorp Inc.

With a collective 5% ownership in the Trust, the interests of management are in line with those of unitholders.



(1) Member of the Audit Committee
(2) Member of the Investment Committee
(3) Member of the Compensation Committee
(4) Member of the Governance and Environmental Committee
(5) Chairman of the Board of Trustees

CORPORATE INFORMATION

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Contact Investor Relations at:
(416) 365-3536
Toll free: 1-877-365-3535
e-mail: info@dundeereit.com
web site: www.dundeereit.com

Taxation of Distributions
Approximately 58% of the distributions made by the REIT to Unitholders during 2003 were tax deferred. Management estimates that 40% of the distributions to be made by the REIT in 2004 will be tax deferred. For more detailed information please visit our web site.

Stock Exchange Listing
The Toronto Stock Exchange
Listing Symbol – D.UN

Annual Meeting of Unitholders
Wednesday, May 5, 2004
4:00 p.m. (ETN)
TSX Conference Centre
The Exchange Tower
130 King Street West
Toronto, Ontario

Distribution Reinvestment and Unit Purchase Plan (DRIP)

The purpose of our Distribution Reinvestment and Unit Purchase Plan (DRIP) is to provide Unitholders with a convenient way of investing in additional units without incurring transaction costs such as commissions, service charges or brokerage fees. By participating in the Plan, you may invest in additional units in two ways:

Distribution Reinvestment: Unitholders will have cash distributions from Dundee REIT reinvested in additional units as and when cash distributions are made.

Cash Purchase: Unitholders may invest in additional units by making cash purchases.

To enrol contact:
Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, ON M5J 2Y1
Attention: Dividend Reinvestment Services

Or call their Customer Contact Centre
at 1-800-564-6253 (toll free) or 416-263-9394

For more information you may also visit our web site:
www.dundeereit.com

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